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Advisory
Council on
Unemployment
Compensation

Unemployment Insurance in the United States:

Benefits, Financing, Coverage

A Report to the President and Congress

ACUC

Advisory Council on Unemployment Compensation

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February 1, 1995

To the President and Congress:

I am pleased to present this second annual report of the Advisory Council on Unemployment Compensation—*Unemployment Insurance in the United States: Benefits, Financing, and Coverage*—in accordance with the provisions of Section 908 of the Social Security Act, as amended by the Emergency Unemployment Compensation Act of 1991 (P.L. 102-164).

For the past sixty years, the Unemployment Insurance system has served as the foundation of economic security for millions of hard-working Americans who find themselves unemployed through no fault of their own. This program is an example of federal-state cooperation at its best. Each state operates its Unemployment Insurance program to meet the needs of its workers within minimum standards established by the federal government. This successful partnership can serve as a useful model for other federal-state programs that provide important services to the citizens of our country.

The recommendations included in this report address fundamental elements of the Unemployment Insurance system—including the adequacy of benefits, financing, and coverage—and their relationship to the system's wage replacement and economic stabilization goals. The recommendations balance the diverse viewpoints of the members of the Council and will help to improve the program's operation.

In addition, my colleagues and I believe that the recommendations in this report and in last year's report will help the Unemployment Insurance system adjust to the needs of today's labor market. Finally, as the Council begins its last year, the American public is clearly demanding improvements in government programs; we believe that the recommendations presented here respond to this demand and that they will, when implemented, increase the efficiency and effectiveness of the nation's Unemployment Insurance system.

Sincerely,

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UNEMPLOYMENT INSURANCE IN THE UNITED STATES
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Advisory Council on Unemployment Compensation
Washington, DC

1995

UNEMPLOYMENT INSURANCE IN THE UNITED STATES

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Preface

IN NOVEMBER 1991, THE CONGRESS of the United States passed the Emergency Unemployment Compensation Act (P.L. 102-164). The act included a section that created the Advisory Council on Unemployment Compensation, which was charged with the task of evaluating "the unemployment compensation program, including the purpose, goals, countercyclical effectiveness, coverage, benefit adequacy, trust fund solvency, funding of State administrative costs, administrative efficiency, and any other aspects of the program and to make recommendations for improvement."

The Advisory Council is made up of eleven members, representing the interests of business, labor, state governments, and the public. Five members are appointed by the President, three members are appointed by the Senate, and three members are appointed by the House of Representatives.

In addition to its regular meetings, the Council has conducted a series of public hearings across the country to provide interested individuals and organizations the opportunity to present their views on the Unemployment Insurance program. The Council has also been involved in research, sponsoring a conference on Unemployment Insurance issues in 1994, and planning a legal symposium and another research conference for 1995.

The Advisory Council will issue a total of three reports. The first *Report and Recommendations*, published in February 1994, primarily addressed reform of the Extended Benefits program. It also presented recommendations on a number of specific questions posed by the Congress. This report, the Council's second, focuses primarily on issues related to Unemployment Insurance benefits, financing, and coverage. The final report of the Council, to be published in February 1996, will focus on issues related to program administration, including efficiency and funding.

This report is divided into two sections. Section I introduces the report and presents the findings and recommendations of the Council. Section II contains a broad background discussion of related Unemployment Insurance issues.

The chapters in Section II include both original research and syntheses of existing information. The primary authors of Section II are Laurie J. Bassi, Amy B. Chasanov, Stacey G. Grundman, and Daniel P. McMurrer. Chapter 6 was written by Robert Pavosevich.

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THE ADVISORY COUNCIL on Unemployment Compensation wishes to express its appreciation to the Council staff for its support. Staff members have provided invaluable background briefings, research, and analysis that have informed our recommendations and this report. Their exceptional work has also produced a series of successful meetings, public hearings, and focus groups. The staff members are—

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The Council also recognizes the contributions of Stephen A. Woodbury, former deputy director of the Advisory Council, who returned to Michigan State University last summer, but who continues to share his talent and wisdom with us. In addition, we extend our thanks to our capable research assistant, Eileen Cubanski; to our editor, Dorothy M. Sawicki; to computer guru Carlos Soto-Garcia; to the Council's designated federal official, Esther R. Johnson; and to the many people at the U.S. Department of Labor who have answered our questions, shared their insights, and supported our efforts throughout the first two years of our work.

Finally, we thank the Unemployment Insurance experts, researchers, and practitioners who have testified at our hearings, provided research support, and contributed a variety of helpful ideas and suggestions.

SECTION I

INTRODUCTION
and
FINDINGS AND RECOMMENDATIONS

1 / Introduction

AS THE ADVISORY COUNCIL on Unemployment Compensation (ACUC) submits its second annual report to the President and Congress, the U.S. Unemployment Insurance system begins its sixtieth year of operation. The members of the Council unanimously agree that the goals established at the inception of the Unemployment Insurance program are as relevant today as they were in 1935. First, the program provides an initial line of economic defense for working Americans who become unemployed through no fault of their own, and spares many of them the indignities of public relief. Second, it accumulates reserves during periods of prosperity. These reserves are then used during economic downturns to assist unemployed workers in meeting their necessary expenses. This function serves the important macroeconomic role of helping to stabilize the economy during recessions.

Although the original goals of the Unemployment Insurance program remain valid, much else has changed. Increasingly, jobs are part-time, contingent, or temporary. Many workers find that they must either accept these jobs or have no job at all. At the same time, states compete more fiercely with each other to attract and retain employers than they did in the past. This competition creates great pressure for states to sacrifice the solvency of their Unemployment Insurance systems by reducing Unemployment Insurance taxes during periods of prosperity. As solvency has declined, the system has increasingly been forced to rely on tax hikes during recessions. This pay-as-you-go financing has eroded the system's macroeconomic stabilization capacity.

Other important changes are on the horizon. Those being recommended in the nation's welfare system will almost surely result in increasing numbers of low-wage workers entering the labor force. Because these workers are often responsible for single parenting and frequently have little work experience or job training, they are likely to suffer more unemployment than do other members of the labor force. Like other workers do, these workers should be able to turn to the Unemployment Insurance system when they lose their jobs. Thus, as the country moves to reform its welfare system, attention must be given to the effects that welfare legislation may have on the Unemployment Insurance system. These and other important changes in the operation of the labor market require that some reforms be made to ensure that the nation's Unemployment Insurance system remains on a sound footing.

The law that established the Advisory Council on Unemployment Compensation—the Emergency Unemployment Compensation Act of 1991—instructs the Council "to evaluate the unemployment compensation program, including the purpose, goals, countercyclical effectiveness, coverage, benefit adequacy, trust fund solvency, funding of State administrative costs, administrative efficiency, and any other aspects of the program and to make recommendations for improvement." While the Council has discussed each of these issues, this report focuses primarily on the most basic aspects of the Unemployment Insurance program—its benefits, financing, and coverage.

Since its inception, the Unemployment Insurance system has been based on the principles of federalism, with the majority of responsibility for financing the program and administering its benefits residing at the state level. The federal government maintains more limited responsibilities, including allocating funds for financing program administration, ensuring the integrity of the Unemployment Insurance trust funds, providing loans to states' trust funds when necessary, and financing one-half of the costs of Extended Benefits during periods of significant economic downturn. In addition, by creating minimum standards, the federal government ensures that competitive pressures among the states will not force the Unemployment Insurance system into a race to the bottom. Each of the partners—the federal government and the states—has a unique role in ensuring the smooth operation of the nation's entire Unemployment Insurance system—a system that serves as a safety net for millions of working Americans and their families.

It is clear that the citizens of the United States expect government to run more efficiently and effectively. Implemented together, the recommendations presented in this report would move the Unemployment Insurance system toward more fully meeting those expectations. The recommendations focus primarily on strengthening the federal-state partnership so that the program is able both to achieve its goals of providing temporary assistance to unemployed workers and countercyclical stabilization of the economy during recessions.

The recommendations in this report should be considered together with those for reforming the Extended Benefits component of the Unemployment Insurance program. (The Council's recommendations for improving the operations of that important component of the program were originally presented in its first annual report, published in 1994, and are reprinted for reference in Appendix E of this report.) When operating properly, the Extended Benefits program automatically triggers on during economic downturns. By reducing the need for expensive ad hoc emergency benefits extensions, which are often ineffectively targeted and poorly timed, an effective Extended Benefits program holds promise of contributing to the creation of more cost-effective and efficient government.

The current report also includes several recommendations for improving the administrative efficiency of the Unemployment Insurance program. The Council intends to return to this issue more comprehensively during its third and final year, continuing to seek ways to make the Unemployment Insurance system operate more effectively and efficiently for all Americans.

In recent years, many sectors of the economy have undergone substantial restructuring that has resulted in improved efficiency and enhanced competitiveness. During the past two years, the economy has experienced growth in employment. While unemployment has dropped since the previous recession, the dynamic nature of the labor market suggests that change will continue. Good economic policy is difficult to make during bad economic times. Now is the time for Congress to consider Unemployment Insurance reform.

ORGANIZATION OF THIS REPORT

Section I of this report includes two chapters. Following this introduction, Chapter 2 presents the current findings and recommendations of the

Advisory Council. Section II, comprising Chapters 3 through 14, then offers more detailed explorations of a number of Unemployment Insurance issues related to the findings and recommendations.

Beginning the second section, Chapter 3 addresses the purpose and objectives of a system of unemployment insurance, and Chapter 4 focuses on the links between those objectives and the methods available for financing such a system. Two central issues in the current U.S. system of financing Unemployment Insurance—forward funding and experience rating—are discussed in Chapters 5 and 6.

Chapters 7 and 8 address issues related to monetary and nonmonetary eligibility for Unemployment Insurance benefits. Chapters 9 and 10 then discuss the level, duration, and adequacy of the benefits that are paid to eligible claimants. Chapter 11 addresses exceptions to universal coverage and universal federal taxation. Coverage and taxation issues related to compliance are discussed in Chapter 12.

Facilitating reemployment for unemployed individuals is discussed in the final two chapters. Chapter 13 focuses on possible reemployment incentives for the unemployed, and Chapter 14 describes many of the reemployment services that are currently available.

The appendixes of the report present the following: figures and tables providing additional background information on financing and benefits issues; the 1994 findings and recommendations of the Council; the charter of the Council; and information regarding the calendar and public hearings of the Council.

2 / Findings and Recommendations

THE PURPOSE OF UNEMPLOYMENT INSURANCE

The Advisory Council on Unemployment Compensation finds that, although an increasing percentage of the unemployed experience long spells of unemployment, the majority of the unemployed experience relatively short unemployment spells. Similarly, while a growing minority of individuals who receive Unemployment Insurance exhaust their benefits without having found new employment, the majority of individuals receive Unemployment Insurance benefits for a relatively short period of time before returning to employment. This reality dictates that the Unemployment Insurance system must be designed to deal effectively with a variety of needs. In particular, the system must both provide temporary wage replacement to individuals and facilitate the productive reemployment of those individuals who experience longer spells of unemployment.

The Unemployment Insurance system also serves an important macroeconomic stabilization role by injecting additional money into the economy during periods of downturn. This objective, however, can only be achieved effectively if the system is forward-funded, thereby accumulating funds during periods of economic health.

These findings lead the Council to a formulation of the following statement of purpose for the Unemployment Insurance system.

1. Statement of Purpose

The most important objective of the U.S. system of Unemployment Insurance is the provision of temporary, partial wage replacement as a matter of right to involuntarily unemployed individuals who have demonstrated a prior attachment to the labor force. This support should help to meet the necessary expenses of these workers as they search for employment that takes advantage of their skills and experience. Their search for productive reemployment should be facilitated by close cooperation among the Unemployment Insurance system and employment, training, and education services. In addition, the system should accumulate adequate funds during periods of economic health in order to promote economic stability by maintaining consumer purchasing power during economic downturns.

FUNDING OF THE UNEMPLOYMENT INSURANCE SYSTEM

The Unemployment Insurance system's capacity to promote economic stability rests on two key aspects of its funding mechanism. First, the funding of the system is "experience rated"—that is, employers who have been responsible for greater demands on the system pay higher taxes and consequently bear a greater share of the system's costs. Second, during periods of prosperity, the system accumulates reserves that are then spent during periods of economic decline.

Some members of the Council believe that experience rating is a crucial component of the program, providing effective incentives for employers to avoid laying off workers. Other members believe that experience rating causes employers to make excessive use of the system's appeal mechanism in an attempt to keep their experience-rated taxes as low as possible. Although the Council was unable to resolve this difference of opinion, it intends to address the issue of experience rating in its next annual report.

The Council unanimously concludes, however, that promoting economic stability is an objective that transcends the interests of the states and cannot be achieved by states working in isolation. While some states have attempted to maintain an adequate degree of forward funding, others have not. The low reserves in some states' trust funds weaken the Unemployment Insurance system's capacity to achieve its economic stabilization function.

Effectively promoting the forward funding of the Unemployment Insurance system requires a coherent federal strategy that includes congressionally stated goals.

2. Recommendation

Congress should establish an explicit goal to promote the forward funding of the Unemployment Insurance system. In particular, during periods of economic health, each state should be encouraged to accumulate reserves sufficient to pay at least one year of Unemployment Insurance benefits at levels comparable to its previous "high cost." For purposes of establishing this forward-funding goal, previous "high cost" should be defined as the average of the three highest annual levels of Unemployment Insurance benefits that a state has paid in any of the previous 20 calendar years.

To complement these forward-funding goals, financial incentives to encourage forward funding should be created. This can be done by changing the structure of the interest rates that the federal government pays to the states on their Unemployment Insurance trust fund balances. A slight reduction in the interest rate paid on low levels of states' trust funds could be used to finance a fairly substantial interest rate premium paid on high levels of reserves. While it is difficult to predict with accuracy how many states would respond to such incentives, careful management of the interest rate structure could ensure that these incentives could be financed without additional cost to the federal government.

3. Recommendation

To encourage further forward funding, an interest premium should be paid on that portion of a state's Unemployment Insurance trust fund that is in excess of one "high cost" year of reserves. The cost of this interest rate premium should be financed by a reduction in the interest rate paid on that portion of each state's trust fund that is less than one "high cost" year of reserves. The U.S. Department of Labor should be given authority to adjust periodically the interest rate structure to ensure that these incentives create no additional cost to the federal government.

The Council finds that the current federal policy of providing short-term, interest-free loans to state trust funds creates a disincentive for states to forward fund their systems. Preferential loan treatment should be available only to states that have met, or made satisfactory progress toward, the forward-funding goal. An example of how satisfactory progress might be defined is presented in Chapter 5 of this report.

4. Recommendation

Preferential interest rates on federal loans to the states should be restricted to those states that have achieved (or made satisfactory progress toward) the forward-funding goal. In particular, the current system of making interest-free, cash-flow federal loans generally available to all states should be ended. Rather, these interest-free loans should be made available only to those states that have achieved (or made satisfactory progress toward) the forward-funding goal prior to the onset of an economic downturn. In other states, these loans should be subject to the same interest charges that are incurred on long-term loans to state Unemployment Insurance trust funds.

5. Recommendation

A method is needed for determining whether a state that has not yet met the forward-funding goal has made "satisfactory progress" toward the goal. This method should be based on an empirical analysis of the rate at which state trust funds must be restored during periods of economic health in order to achieve the forward-funding goal prior to a recession.

6. Recommendation

When states have achieved (or made satisfactory progress toward) the forward-funding goal, yet find it necessary to borrow from the federal government, the interest rate charged on long-term loans should be a preferential rate that is 1 percentage point lower than would otherwise be charged.

The Council has discussed the level at which the taxable wage base and tax rate established by the Federal Unemployment Tax Act (FUTA) should

be set. This is a complex issue. FUTA revenues are earmarked for financing the administration of the nation's Unemployment Insurance system, as well as that of the U.S. Employment Service. However, because the trust funds are currently held within the unified federal budget, it is not possible for these programs to achieve direct access to the funds that are earmarked for them. In addition, a two-tenths surcharge that was imposed in 1977 to pay off trust fund debts has been extended well beyond the time when the debt was repaid. Quite apart from these issues, the Council has not yet made a determination of whether or not additional revenues from FUTA would contribute to more efficient and effective operation of the Unemployment Insurance system and the Employment Service.

Another element of complexity results from the fact that the minimum taxable wage base that the states use for financing their Unemployment Insurance benefits is tied to the FUTA taxable wage base. On average, those states with higher taxable wage bases have a higher level of reserves than do states that have set their taxable wage base at the minimum level of $7,000. Consequently, raising the FUTA taxable wage base might contribute to the overall forward funding of the system.

Furthermore, a low taxable wage base within a state tends to impose the burden of Unemployment Insurance payroll taxes disproportionately on employers of low-wage workers. To the extent that employers pass on a portion of the tax to their workers in the form of lower wages, therefore, a disproportionate share of the burden of the tax is ultimately borne by low-wage workers. Those low-wage workers who work part-time or part-year, however, are often ineligible for Unemployment Insurance. As a result, the low taxable wage base within the Unemployment Insurance system is both regressive and unfair.

The Council has not yet reached a consensus on how to address these interrelated issues most effectively. As it considers the issues of administrative funding and efficiency over the course of the next year, however, the issue of the FUTA taxable wage base and tax rate will once again be addressed.

The Council does note, however, that the Unemployment Insurance system was intended as a self-contained system of social insurance. Inherent in this design is the principle that funds are accumulated and held in trust solely for their intended purpose: namely, the payment of benefits to eligible unemployed workers, economic stimulus, and the costs of administering the system.

Inclusion of FUTA accounts and state Unemployment Insurance trust fund accounts within the unified federal budget undermines the integrity of the Unemployment Insurance system. Since federal budget offsets must be identified before additional FUTA funds (which are earmarked for program administration) can be appropriated, some states have found it necessary to divert their trust funds to pay for administrative expenses—expenses that should be paid out of the FUTA trust fund. This diversion, while perhaps necessary, tends to erode the integrity of the system's financing. Employer willingness to contribute to the system, state capacity to develop and maintain adequate trust funds, and worker confidence in the system are all undermined.

Furthermore, when Unemployment Insurance trust fund balances that have been explicitly accumulated for countercyclical purposes are used to balance the annual federal budget, the system loses its capacity to increase spending automatically during recessions. Consequently, unlike other trust funds held by the federal government, the Unemployment Insurance trust funds are rendered fundamentally incapable of achieving one of their major objectives—economic stabilization—through their inclusion in the unified federal budget.

7. Recommendation

All Unemployment Insurance trust funds should be removed from the unified federal budget.

UNEMPLOYMENT INSURANCE COVERAGE AND TAXATION

Virtually all wage and salaried workers are covered by Unemployment Insurance, and their employers pay taxes into the system accordingly. There are, however, two important exceptions. The first exception is that nonprofit employers do not pay FUTA taxes, despite the fact that their employees are eligible for Unemployment Insurance, use the system, and generate administrative costs for the system. In calendar year 1992, this exemption cost the federal trust funds approximately $300 million. The second exception is that agricultural workers on small farms are not covered by Unemployment Insurance. The Council finds no justification for either of these exceptions.

8. Recommendation

The FUTA exemption for nonprofit employers should be eliminated.

9. Recommendation

The exemption of agricultural workers on small farms from Unemployment Insurance coverage should be eliminated.*

The Council also finds that Unemployment Insurance taxes owed by farm labor contractors ("crew leaders") often are not paid. Federal law specifies that, under most circumstances, these farm labor contractors are the designated employers of their workers and that they are responsible for the payment of Unemployment Insurance taxes. It is difficult, however, to enforce this provision because of the many obstacles that prevent locating crew leaders who have outstanding tax obligations.

10. Recommendation

Federal law should be amended so that farm owners or operators are assigned responsibility for unpaid Unemployment Insurance taxes owed by the crew leaders with whom they contract for workers on their farms.**

The Council finds that some employers improperly avoid paying Unemployment Insurance taxes by misclassifying their employees as independent contractors. Clear definitions that delineate the conditions under which an individual would legitimately be qualified as an independent contractor would help to alleviate this problem.

Section 530 of the Revenue Act of 1978 protects businesses that have "reasonable basis" for misclassifying employees as independent contractors. Businesses that fall under the Section 530 "safe harbor" are not required to correct the classification of employees and cannot be assessed back taxes or penalties based on the misclassification of workers. Section 530 also prohibits the Internal Revenue Service (IRS) from clarifying the guidelines

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*Two members of the Council object to this recommendation.

**One member of the Council objects to this recommendation.

for determining whether a worker is an employee or an independent contractor. The ambiguity of these guidelines is the cornerstone of the misclassification problem and the tax revenue losses associated with it. In addition, revenue collection is limited by Section 3509 of the Internal Revenue Code, which caps the employment tax liability of those businesses not covered by Section 530.

The greatest revenue loss results from businesses that do not file information returns on independent contractors. These are circumstances under which businesses are most likely to misclassify workers, as well as the circumstances under which independent contractors are least likely to report their entire income. Increasing the penalty for failing to file information returns would increase the incentive to file, increase the percentage of independent contractor income reported, and provide the information needed to identify employers that misclassify workers—thereby creating an incentive to classify workers correctly.

While the Council recognizes that correcting these problems would have ramifications that reach far beyond the Unemployment Insurance system, the Council finds that the problems are sufficiently serious to merit action at both the state and federal levels.

11. Recommendation

States should review and consider adopting the best practices of other states to address classification issues which include the following: clarifying the definitions of employee and independent contractor; specifying employer liability for payroll taxes; licensing, bonding, or regulating the employee leasing industry; and strategic targeting of audits.

12. Recommendation

Federal law should be amended to eliminate the "prior audit" safe harbor provision of Section 530 of the Revenue Act of 1978.

13. Recommendation

Federal law should be amended to eliminate the provision of Section 530 of the Revenue Act of 1978 that bars the IRS from issuing guidelines to define the employment relationship.

14. Recommendation

Federal law should be amended to repeal Section 3509 of the Internal Revenue Code and to require businesses to pay all taxes owed for workers that are misclassified after the enactment of the repeal.

15. Recommendation

The $50 penalty for businesses that fail to file information returns with the IRS or with the independent contractor they have hired should be increased.

The Council notes that available statistics do not accurately measure the level of Unemployment Insurance receipt among the unemployed (that is, "recipiency"). The measure of the "insured unemployed" (IU) and the ratio of insured unemployed to the covered labor force (that is, the insured unemployment rate—the IUR) are frequently used for a number of purposes. When used as measures of recipiency, however, they are misleading. Both statistics consistently overstate the number of individuals who actually receive Unemployment Insurance benefits in a given week. In addition to counting recipients, the two measures both include individuals who file a claim for, but do not receive, benefits in a given week (these include individuals on a waiting week, individuals whose claims are ultimately denied for nonmonetary reasons, and individuals who are disqualified for a given week). At the national level, this inclusion has the effect of overstating the number of the unemployed who actually receive Unemployment Insurance benefits by approximately 10 percent (although there is considerable variation among the states in the extent to which currently reported statistics overstate the actual receipt of benefits).

16. Recommendation

The U.S. Department of Labor should report a measure of Unemployment Insurance recipiency. The measure should be a ratio, with the numerator defined as the number of individuals who are actually paid Unemployment Insurance benefits, and the denominator defined as the total number of unemployed individuals.

ELIGIBILITY FOR UNEMPLOYMENT INSURANCE BENEFITS

Five percent of all workers in 1993 reported that they were unable to find full-time employment, and 16 percent of the work force held part-time jobs. The Council finds that in some states, these individuals are unable to qualify for Unemployment Insurance benefits, even when they have substantial labor force attachment. This problem is especially pronounced for low-wage individuals, many of whom must work in temporary or part-time jobs. Welfare reform could result in an increase in the number of low-wage workers who find themselves in this situation.

Some unemployed workers are unable to qualify for Unemployment Insurance benefits because of their state's definition of the "base period." The base period is the period of time that is used for calculating whether or not unemployed individuals' earnings are sufficient to qualify them for Unemployment Insurance. Many states define the base period as the first four of the past five completed calendar quarters. In these states, therefore, between three and six months of an individual's most recent work experience is excluded from consideration in calculating eligibility for benefits. This may have the effect of disqualifying some workers who have worked continuously, but who need the most recently completed quarter of earnings to be included in the base period in order to qualify for Unemployment Insurance benefits. To solve this problem, some states now use a "moveable base period," which allows the minimum earnings requirement to be met on the basis of the four most recently completed quarters of work if it is not met using the standard definition.

The Council finds that advances in technology have made it feasible for all states to use the most recently completed quarter when determining benefit eligibility, and that using this quarter is consistent with the legislative requirement that states ensure full payment of Unemployment Insurance when due. While the Council has been unable to develop sound estimates of the cost of implementing such a change, there are reasons to believe that the cost may not be prohibitive. First, many of the individuals who are determined to be eligible using a moveable base period would become eligible eventually (as soon as an additional quarter of earnings information becomes available). Second, some of the increase in the cost of Unemployment Insurance benefits would be offset by a reduction in benefits paid under means-tested programs, such as Aid to Families with Dependent Children (AFDC) and Food Stamps.

In some cases, unemployed individuals cannot qualify for Unemployment Insurance benefits because their eligibility is contingent upon their earnings in the calendar quarter in which they became unemployed. Information about their most recent earnings is typically not available until after the quarter has been completed. These individuals often do not realize that they can reapply (and often qualify) for benefits when information about their most recent quarter of earnings becomes available. This problem could be corrected if these individuals were told when they should reapply for benefits, as well as what additional earnings they would need to qualify for benefits.

17. Recommendation

All states should use a moveable base period in cases in which its use would qualify an Unemployment Insurance claimant to meet the state's monetary eligibility requirements. When a claimant fails to meet the monetary eligibility requirement for Unemployment Insurance, the state should inform the individual in writing of what additional earnings would be needed to qualify for benefits, as well as the date when the individual should reapply for benefits.

In some states, low-wage workers face an additional impediment in qualifying for Unemployment Insurance benefits. In order to meet their state's base period and/or high-quarter earnings requirements, low-wage individuals must work more hours than workers who earn higher wages. For example, an individual who works half-time for a full year (i.e., 1,040 hours) at the federal minimum wage level would not meet minimum earnings requirements in 9 states. At an hourly wage of $8.00, however, a half-time, full-year worker would be eligible in all states. Similarly, an individual who works two days per week for a full year (approximately 800 hours) at the minimum wage would not meet the minimum earnings requirements in 29 states. At a wage of $8.00 per hour, however, that individual would be eligible in all but 2 states.

The Council finds that any individual who works at least 800 hours per year should be eligible for Unemployment Insurance benefits and that states' minimum earnings requirements should be set accordingly. If all states set their earnings requirements at this level, the number of individuals eligible for Unemployment Insurance benefits would increase by approximately 5.3 percent, and the amount of benefits paid would increase

by approximately 3.6 percent. Some of the increase in the cost to the system, however, would be offset by a reduction in receipt of means-tested benefits such as AFDC and Food Stamps.

18. Recommendation

Each state should set its law so that its base period earnings requirements do not exceed 800 times the state's minimum hourly wage, and so that its high quarter earnings requirements do not exceed one-quarter of that amount.

Fourteen states preclude workers in seasonal industries from collecting Unemployment Insurance except during the season in which work is normally done within the industry. In addition, twelve of these states disallow seasonal workers' earnings from being counted toward their minimum earnings requirement, even if the individual subsequently works in a nonseasonal job. The Council finds these exclusions to be problematic.

19. Recommendation

States should eliminate seasonal exclusions; claimants who have worked in seasonal jobs should be subject to the same eligibility requirements as all other unemployed workers.

In addition to the monetary requirements for qualifying for Unemployment Insurance, each state has a variety of nonmonetary requirements that unemployed individuals must satisfy in order to qualify for benefits. These requirements include stipulations about availability for suitable work, ability to work, work search requirements, voluntary separation for good cause, discharges due to misconduct, refusal of suitable work, and unemployment as a result of a labor dispute. In some cases, part-time workers (who meet monetary eligibility requirements) are explicitly precluded from receiving Unemployment Insurance.

20. Recommendation

Workers who meet a state's monetary eligibility requirements should not be precluded from receiving Unemployment Insurance benefits merely because they are seeking part-time, rather than full-time, employment.

State legislation often does not address the specifics of many of the situations that Unemployment Insurance claimants face. As a result, interpretations of nonmonetary eligibility requirements can also be found in administrative and judicial case law and administrative rules. Testimony presented in the Council's public hearings indicates that the complexity of these nonmonetary requirements creates confusion about eligibility requirements. It can be difficult for both claimants and employers to understand these requirements with a reasonable degree of certainty. These problems can be particularly pronounced for multistate employers.

Not only can this lack of certainty impede the receipt of Unemployment Insurance, it may also increase unnecessarily the number of appeals filed by both claimants and employers. These problems appear to be particularly severe with regard to determinations involving employee misconduct, refusal of suitable work, and voluntary leaving for good cause. Clarifying these issues would serve the interests of both groups.

21. Recommendation

A state-specific information packet that clearly explains Unemployment Insurance eligibility conditions (both monetary and nonmonetary) should be distributed by the states to unemployed individuals.

The Council is particularly concerned about a number of specific nonmonetary eligibility conditions. For example, it is not always clear whether an individual who is unavailable for shift work (perhaps due to a lack of public transportation or child care) will be found to be eligible for Unemployment Insurance. Consideration needs to be given to situations in which individuals quit their jobs because of one of the following circumstances: a change in their employment situation (e.g., change in hours of work), sexual or other discriminatory harassment, domestic violence, or compelling personal reasons, including family responsibilities. In addition, the Council is concerned about the variability in the definition of misconduct across states, and about the treatment of individuals who refuse employment because it is temporary or commission work. The Council intends to address these and related issues in its third annual report.

ADEQUACY OF UNEMPLOYMENT INSURANCE BENEFITS

At the inception of the Unemployment Insurance system, much debate was devoted to the adequacy of benefits. Many of the founders of the system argued that benefits should replace 50 percent of lost earnings; they believed that this percentage was high enough to allow workers to purchase basic necessities, but not so high as to discourage prompt return to work.

A number of presidents, including and following Dwight Eisenhower, have endorsed a goal of 50 percent replacement of lost earnings within the Unemployment Insurance system. President Richard Nixon advocated that the Unemployment Insurance system should seek to replace 50 percent of lost earnings for four-fifths of all Unemployment Insurance recipients.

The level of a state's maximum weekly benefit amount has a direct impact upon the percentage of Unemployment Insurance recipients who receive benefits that equal or exceed a given replacement rate. Those individuals whose earnings qualify them for their state's maximum weekly benefit amount typically have less than half of their wages replaced. Therefore, when a state's maximum benefit amount is relatively low as a percentage of the state's average weekly wage, the state will not meet the 50 percent replacement rate goal for a large percentage of recipients.

The Council endorses the long-standing goal of 50 percent replacement of lost earnings, and notes that a state is likely to be able to achieve this goal for a large number of workers by setting the state maximum weekly benefit amount equal to two-thirds of state average weekly wages.

22. Recommendation

For eligible workers, each state should replace at least 50 percent of lost earnings over a six-month period, with a maximum weekly benefit amount equal to two-thirds of the state's average weekly wages.*

The Council also notes that, starting in 1986, all Unemployment Insurance benefits became subject to taxation. Taxation of Unemployment Insurance benefits results in a reduction of the effective replacement rate.

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*One member of the Council objects to this recommendation.

23. Recommendation

Unemployment Insurance benefits should be tax-exempt.*

The Council finds that the current system for reporting the average replacement rate of lost earnings within the Unemployment Insurance system needs to be improved. While the U.S. Department of Labor routinely reports the replacement rate, the concept used in the calculation is flawed. The reported replacement rate is calculated by dividing Unemployment Insurance benefits paid by the wages of all covered workers. To the extent that those who receive Unemployment Insurance have lower wages than the average covered worker, the reported replacement rate will understate the actual replacement rate. Conversely, if those who receive Unemployment Insurance have higher wages than the typical covered worker, the reported replacement rate will overstate the actual replacement rate. Advisory Council calculations using data available from selected states suggest that the reported replacement rate significantly understates the actual replacement rate.

24. Recommendation

The U.S. Department of Labor should calculate and report the actual replacement rate for individuals who receive Unemployment Insurance. This replacement rate should be calculated by dividing the weekly benefits paid to individuals by the average weekly earnings paid to those individuals prior to unemployment.

REEMPLOYMENT INCENTIVES

The Council finds that financial incentives (such as reemployment bonuses or self-employment subsidies) for facilitating rapid reemployment have a positive impact on a small portion of the unemployed. In some cases, this positive impact could be offset partially by negative impacts on others who find jobs more slowly because they are displaced in the job queue by those who receive the incentives. This displacement effect is likely to be more pronounced during periods of relatively high unemployment.

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*Four members of the Council object to this recommendation.

The Council concludes, therefore, that the states should be permitted to experiment with reemployment incentives, but it opposes incentives to encourage (or require) states to implement such strategies.

Some members of the Council object to the use of self-employment incentives within the Unemployment Insurance system—especially when an individual's entire benefit is paid in lump-sum form.

25. Recommendation

States should be given broad discretion in determining whether reemployment incentives, such as reemployment bonuses or self-employment allowances, should be included as a part of their Unemployment Insurance systems.

ADMINISTRATIVE FINANCING

States' administrative costs are financed by the federal government with a portion of the revenues generated by FUTA. This situation requires some systematic method for allocating these revenues among the states. The Council finds that whatever method is chosen, it is important to create financial incentives for states to administer their Unemployment Insurance systems efficiently. For example, those states that are able both to administer their Unemployment Insurance systems with less money than is allotted to them and to achieve U.S. Department of Labor performance requirements could be allowed to keep all or part of the surplus for other uses within their UI systems. The Council intends to address this issue, in conjunction with the U.S. Department of Labor's performance requirements, in its next annual report.

The U.S. Department of Labor has proposed an Administrative Financing Initiative (AFI) that would allocate FUTA funds based on a national unit cost with base-level and contingency-level funding. The Council takes no position on the AFI, because the U.S. Department of Labor and the states have not yet agreed on the details of this initiative.

The Council notes that it is inefficient for the federal government to require employers to fill out and submit separate forms and payments for their FUTA and state Unemployment Insurance taxes. Not only does this impose an unnecessary paperwork burden on employers, it also creates redundant tax collection units in the federal and state governments. The

expense of collecting Unemployment Insurance taxes could be reduced by allowing the states to collect FUTA taxes on behalf of the federal government.

26. Recommendation

FUTA taxes should be collected with other Unemployment Insurance taxes by each of the states and submitted to the federal government for placement in the federal trust fund. States' Unemployment Insurance taxes should remain in the state trust funds, as is currently the case.

SECTION II

ISSUES IN UNEMPLOYMENT INSURANCE

3 / Purpose and Objectives

THE STRUCTURE OF ANY NATION'S SYSTEM of unemployment insurance[1] reflects numerous value judgments regarding the desired weighting of social objectives and the optimal distribution of rights and responsibilities. Such judgments are likely to vary across, as well as within, societies. In order for a system to function as intended, it must be constructed around objectives that have been explicitly identified and prioritized. In addition, the very structure of the system must assign numerous rights and responsibilities, either implicitly or explicitly, to different groups. While many of these rights and responsibilities are a direct consequence of the objectives being pursued, there are various ways that they can be assigned.

In the next section, the potential objectives of an unemployment insurance system are discussed. The section on "Balancing Objectives" then describes the current Unemployment Insurance (UI) system in the United States and considers how its objectives and related rights and responsibilities compare with those of systems in other countries. Additional burdens that are necessarily assigned by unemployment insurance systems are briefly considered in the last section. The financing structure of the system, which has the fundamental effect of allocating many of the costs that are associated with unemployment, is discussed in Chapter 4.

POTENTIAL OBJECTIVES

Four potential primary objectives for unemployment insurance programs can be identified. Such programs can (1) provide partial replacement of lost wages to unemployed individuals, (2) help stabilize the macroeconomy,

(3) help prevent unemployment from occurring, and (4) facilitate the reemployment of unemployed individuals. Each of these possible objectives is discussed below.

Wage Replacement

Most unemployment insurance programs provide eligible unemployed workers with a monetary payment that replaces some percentage of their previous wages. This objective is based largely on the beliefs that some unemployment is inevitable in a dynamic and fluid labor market and that many unemployed individuals need some assistance in order to avoid significant hardship. Wage replacement is an objective that is shared by all unemployment insurance systems, although they differ considerably in the extent to which they pursue this objective.

The extent to which a system attempts to replace wages can be measured along two dimensions. First, the greater the percentage of unemployed individuals who are eligible for benefits, the more extensive is the wage replacement role of the system. Second, the "level" of benefits provided to eligible individuals also reflects the degree to which the goal of wage replacement is pursued. A number of factors determine this overall level of benefits. Often, benefits are determined as some percentage of an individual's pre-unemployment wages, and the absolute level of benefits is subject to a minimum and/or maximum level. In addition, the potential duration of benefit payments may be limited, which restricts the total potential amount of benefits that individuals can receive.

Economic Stabilization

Unemployment insurance programs can serve as a fiscal stimulus tool that helps stabilize the macroeconomy by injecting additional money into the economy during periods of downturn. This occurs because the number of unemployed individuals increases as economic conditions deteriorate, resulting in an automatic flow of additional money into the economy as unemployment benefits are paid to more people.

The extent to which an unemployment insurance system can fulfill the function of economic stabilization during recessions depends on two major factors. The first is the extent to which the system pursues the wage replacement objective. That is, the greater the level of benefits paid out,

the greater the stimulus provided to the economy, particularly during recessionary periods. The second factor is the funding mechanism for the system. Economic stabilization can be achieved most effectively when unemployment benefits are paid out of a trust fund established at an earlier time (that is, under a principle of forward funding). Under pay-as-you-go funding, which prevails today in the systems of many states in the United States, few reserves are available to be pumped into the economy because they were not built up during healthier economic times.

Prevention of Unemployment

At a microeconomic level, unemployment may be prevented to some extent by charging employers for the costs of the unemployment benefits of former employees. In the U.S. system, this financing method is called "experience rating." (See Chapter 6.) It provides a disincentive to layoffs and, all other things being equal, is likely to reduce the number of individuals who lose their jobs. By slightly increasing the cost of employing workers, however, experience rating sometimes has the effect of decreasing worker hiring. Thus, the overall effect of financing systems such as experience rating may be a more general smoothing of employment, by reducing both hiring and layoffs.

As it helps stabilize the economic situation, an unemployment insurance system can also help prevent unemployment indirectly—on a macroeconomic level—by maintaining overall purchasing power within the economy, thereby partially ameliorating a downward spiral of income and employment during recessions. Indeed, some experts view economic stabilization and the prevention of unemployment as two elements of the same objective (Blaustein 1993).

Facilitation of Reemployment

By helping to minimize financial disruption for unemployed individuals, the payment of unemployment insurance benefits allows them to focus more time and energy on seeking new, appropriate employment, and less time on making other financial adjustments. The provision of unemployment insurance, therefore, may enhance individuals' chances of finding productive reemployment quickly. In this view, unemployment benefits can be a useful support for job search. Others believe, however, that too

generous a wage replacement program reduces incentives for unemployed individuals to seek rapid reemployment.

Unemployment insurance programs can also facilitate reemployment by making labor market information available and by steering unemployed individuals to other job search and job training services. Because unemployment offices are generally the first point of contact between the government and the unemployed regarding their employment status, the initial visit to these offices is usually the first opportunity to offer potentially useful reemployment services. The contact also affords an opportunity to screen individuals to determine the circumstances of their unemployment and to identify the most appropriate available services for ensuring their rapid return to productive reemployment.

BALANCING OBJECTIVES

To a significant extent, all of the objectives discussed above are positive outcomes. Nevertheless, for two reasons, they cannot all be fully pursued simultaneously within one unemployment insurance system. First, because some of the objectives require a commitment of scarce resources, they must be weighted according to their relative priority in a given system. Second, the pursuit of some objectives can have a negative effect on others. For example, generous wage replacement provisions may hamper efforts to facilitate reemployment by reducing the costs of unemployment to individuals. Similarly, the desire for an extremely limited wage replacement program is likely to reduce the capacity of unemployment insurance to serve as a significant tool for economic stabilization during periods of recession. Because of these tensions, the design of an unemployment insurance system often requires a subtle balancing of competing objectives.

Thus, in determining the structure of an unemployment insurance program, the identification and prioritization of objectives, as well as the intrinsic tensions among those objectives, must be taken into consideration. To a great extent, the appropriate balance among the objectives must ultimately depend on value judgments, which will inevitably vary across (and within) societies and cultures. The following subsections discuss the operation and interaction of the objectives of the Unemployment Insurance system in the United States, comparing their operation and interaction with those of systems in other industrialized nations.

Unemployment Insurance Objectives in the United States

The purposes of the Unemployment Insurance system in the United States have been the subject of disagreement since the system's inception. A 1946 congressional review of the program stated that "there is still some disagreement as to its primary purpose and as to its basic principles. It is generally conceived of as a multi-purpose program, although different groups emphasize different aspects of it" (quoted in Blaustein 1993, 43). In 1935, Franklin D. Roosevelt focused on employment stabilization in stating that "an unemployment compensation system should be constructed in such a way as to afford every practicable aid and incentive toward the larger purpose of employment stabilization" (quoted in Blaustein 1993, 46).

In 1936, however, the U.S. Social Security Board had suggested the following broad statement of purpose for adoption by the states, placing greater emphasis on the burden felt by the unemployed worker:

> Economic insecurity due to unemployment is a serious menace to the health, morals, and welfare of the people of this state. Involuntary unemployment is therefore a subject of general interest and concern which requires appropriate action by the legislature to prevent its spread and to lighten the burden which now so often falls with crushing force upon the unemployed worker and his family. The achievement of social security requires protection against this greatest hazard of our economic life. This can be provided by encouraging employers to provide more stable employment and by the systematic accumulation of funds during periods of employment to provide benefits for periods of unemployment, thus maintaining purchasing power and limiting the serious social consequences of poor relief assistance. [Quoted in Blaustein 1993, 46.]

The last official federal expression of the program's major objectives was issued in 1955.[2] That year, the U.S. Department of Labor stated the following:

> Unemployment insurance is a program—established under Federal and State law—for income maintenance during periods of involuntary unemployment due to lack of work, which provides partial compensation for wage loss as a matter of right, with dignity and

> dispatch, to eligible individuals. It helps to maintain purchasing power and to stabilize the economy. It helps to prevent the dispersal of the employers' trained work force, the sacrifice of skills, and the breakdown of labor standards during temporary unemployment. [U.S. Department of Labor, Bureau of Economic Security, quoted in Blaustein 1993, 47.]

While a number of other goals are articulated in the preceding statement, it suggests that wage replacement is perhaps the primary goal of the system. Many experts agree with this perspective. Haber and Murray (1966, 26-27) state that "unemployment insurance is primarily alleviative in that it assists the unemployed worker, when preventive and curative measures fail, to meet his nondeferrable expenses. It is an insurance program that provides partial replacement of a worker's wage loss during unemployment in a manner that will maintain his self-respect."

More recently, Blaustein (1993, 48-49) states that "relieving or forestalling financial hardship for the unemployed is the central aim of the program." He continues, "Unemployment insurance can and does serve other valuable ends; if alleviation of hardship were not the focal objective, however, it is difficult to imagine the program's existence based on other objectives."

Thus, there is some agreement that the U.S. system serves a wage replacement role first, while also strongly pursuing a number of other objectives. Such a statement could also likely apply to the systems in most other industrialized countries. Nevertheless, in comparison with those countries, a number of features of the U.S. system stand out.

United States in Comparative Perspective

Those features of the U.S. Unemployment Insurance system that are particularly noteworthy are discussed here, and are compared with those of other countries. The features discussed are the broad objectives identified above. It is important to recognize that this discussion is limited to the extent to which these objectives are pursued through a nation's unemployment insurance system, since a number of them can also be achieved in other ways. Additional policies or prevailing societal norms may serve the same objectives. For example, employee rights legislation in many nations prevents layoffs under some circumstances. The United States has no such

legislation and is more direct in its use of the UI system for this purpose. Therefore, the extent to which a given objective is emphasized in the UI system should not necessarily be viewed as a measure of the overall importance of that objective in a given society.

Wage Replacement

Despite the primacy of wage replacement in the U.S. system, most measures of this function suggest that it is less generous in this country than elsewhere. Among the Group of Seven (G-7) nations,[3] benefits in relation to previous wages are generally the lowest in the United States.[4] (See Table 3-1.) It is difficult to make general statements regarding the levels of benefits because each nation uses a unique system to calculate benefit levels, with six of the seven nations relating benefits in some way to past wages. According to comparisons by the Congressional Research Service (1992b) of the benefits that would be available in specific cases, the United States pays a level of benefits similar to that of other G-7 nations to young workers with low wages and low job tenure. Benefits tend to increase more quickly in the other G-7 nations, however, for older individuals, workers with higher wages, or workers with longer job tenure.

The maximum regular duration of benefits in the United States is also among the lowest of the seven systems compared here. The maximum UI benefit duration for full-time workers is 26 weeks in most states in the United States.[5] Among the other G-7 nations, UI benefits also generally continue for approximately half a year in Italy and Japan, two-thirds of a year in Canada and France, and a full year in Germany and the United Kingdom. Other factors can increase the maximum length of benefits in many of these countries (see Table 3-2). Age and work history can increase benefit duration in France, Germany, and Japan.[6] The level of unemployment can increase the maximum duration in Canada, France, and the United States.[7] In addition, in France, Germany, and the United Kingdom, means-tested unemployment assistance programs can extend benefits (at a lower rate) indefinitely.

Furthermore, the percentage of the unemployed who receive UI in the United States is significantly lower than it is in the other countries. This is of added importance because, as noted above, the United States does not have unemployment assistance programs available for workers who are ineligible for Unemployment Insurance. Among the G-7 nations, expend-

TABLE 3-1. Major Determinants of UI Benefit Amounts in G-7 Nations

Nation	Relationship to Past Wages[a]	UI Benefit Formula Varies in Relation to: Age	Work History	Region	Dependents
Canada	60% of average gross wage, maximum of $353/week	—	—	—	—
France	$6.91/day plus 30% of average gross wage[b]	—	X	—	—
Germany	63% of average net wage	—	—	—	X
Italy	None—benefit is $0.87/day (+ 66% of average gross wage for workers in manufacturing and construction)	—	—	—	—
Japan	80% of average gross wage at low wage levels, 60% at high wage levels, maximum of $59/day	X	—	—	—
United Kingdom	None—benefit is $64.91/week	X	X	—	X
United States	50% of average gross wage in most states, maximum of $116 to $335/week (maximum in median state is $212/week)	—	—	X	X

SOURCE: Congressional Research Service (1992b, 20).

[a] Currency figures were converted to U.S. dollars using December 31, 1991, exchange rates.

[b] After the original and extended benefit periods have lapsed, the benefit paid is a flat amount unrelated to wages.

TABLE 3-2. Determinants of Maximum UI Benefit Durations in G-7 Nations

Nation	Maximum Benefit Duration for Full-time Workers	Maximum Duration Varies in Relation to:			
		Work History	Age	Unemployment Rates	Region
Canada	35 weeks (worked all year)	X	—	X	X
France	8 months (worked more than half-year)	X	X	X	X
Germany	52 weeks (worked last 3 years)	X	X	—	—
Italy	180 days	X	—	—	—
Japan	180 days	X	X	—	—
United Kingdom	52 weeks	—	—	—	—
United States	26 weeks in 51 states (must have worked certain amount in 43 states)	X	—	X	X

SOURCE: Congressional Research Service (1992b, 24).

itures on unemployment programs as a percentage of gross domestic product (GDP), adjusted for unemployment rate, were either the lowest or the second-lowest in the United States throughout the 1970s and 1980s.[8]

Recipiency (the percentage of the unemployed who receive benefits) in the United States[9] is much lower than in the other G-7 nations despite eligibility standards that are not particularly strict relative to those other countries. Eligibility generally requires that an individual work in covered employment for some minimum time during a base period. Italy has the strictest requirements, while those in the United States, based primarily upon previous earnings, are relatively minimal. The United States does, however, generally impose the longest disqualification period for nonmonetary factors such as voluntary quits. (For a more detailed discussion of nonmonetary eligibility standards, see Chapter 8 in this report.)

Overall, the evidence suggests that, relative to other industrialized countries, the wage replacement capacity of the UI system in the United States is limited. As a result, unemployed workers in the United States are implicitly assigned more responsibility for their unemployment situation than are workers in other nations. (See the discussion of this subject in the next section.)

Economic Stabilization

In the United States, the economic stabilization capacity of the UI system is also one of the most limited among nations with similar economies, for two main reasons. First, because the wage replacement function is limited, the capacity of the UI system to have a significant macroeconomic effect is also limited. Indeed, recent estimates suggest that the UI program was only about two-thirds as effective as a countercyclical stabilizer in the 1980s as it was in the 1970s, with a large part of this decline being potentially attributable to decreases in recipiency rates in the United States during that period (Dunson et al. 1990). Second, the increasing reliance on a pay-as-you-go funding structure in the U.S. system has also limited its capacity to act as a significant economic stabilizer.[10]

Prevention of Unemployment

The United States is the only one of the G-7 nations that relates employers' tax rates to their unemployment experience. Thus, the United States pro-

vides perhaps the most direct UI-related incentives to employers to reduce unemployment. In many other countries, however, employee rights legislation may tend to have a similar effect.

Facilitation of Reemployment

Overall, the extent to which this objective is pursued in the U.S. Unemployment Insurance program relative to that of other countries is unclear. Because benefit levels, benefit duration, and recipiency rates are low in the United States, workers may face additional pressure to find reemployment rapidly. There is some evidence that rates of movement out of unemployment into employment are higher in the United States than they are in other countries.[11]

It is not clear, however, whether the jobs that are being accepted by unemployed individuals are the most appropriate jobs in that they take full advantage of an individual's skills, education, and experience. Indeed, some believe that more generous unemployment benefits, for a relatively long duration, serve primarily as a support for individuals' job search efforts. To the extent that such benefits facilitate effective matching of workers' skills with employers' needs, other nations' systems that are more capable of minimizing the disruption caused by unemployment would also be more effective in achieving reemployment objectives.

In addition, unemployment insurance programs, to a greater or lesser extent, are often linked to reemployment services. In the United States and other G-7 nations, most UI recipients are required to register with the public employment service as a condition of continuing eligibility for unemployment insurance benefits. New "profiling" initiatives in the United States are also designed to strengthen the direct link between UI and other reemployment services. (See Chapter 14.)

RESPONSIBILITIES UNDER UNEMPLOYMENT INSURANCE

Three significant responsibilities are assigned, directly or indirectly, through the functioning of any unemployment insurance system. The appropriate assignment of the following burdens, therefore, should be explicitly considered in designing the structure of the system: (1) the responsibility for bearing the costs of finding reemployment, (2) the responsibility for ensuring compliance in the system, and (3) the responsi-

bility for funding the system. The first two issues are discussed below; the third issue is addressed in the next chapter.

Finding Reemployment

One justification for the payment of unemployment benefits is that they allow an individual to focus on searching for a new job. The overall level of a nation's unemployment insurance benefit payments (including amount and duration) may be seen as a reflection of the level of responsibility for an individual's unemployment spell that is borne by the groups that finance the system. This responsibility implicitly includes costs related to finding reemployment. Thus, the exhaustion of an individual's benefits may be seen as ending the system's responsibility for all elements related to the unemployment spell.

Overall, therefore, the duration of benefits paid should strongly reflect two factors: (1) the prevailing social view about the responsibilities for unemployment and reemployment, and (2) the amount of time it takes an individual to acquire and apply relevant labor market information and to find and accept an appropriate job offer. In the United States, which has a relatively short duration in comparison to other G-7 nations, the unemployed worker bears more responsibility for finding reemployment rapidly than do unemployed workers in other countries.

Compliance

An additional responsibility assigned in part through the structure of an unemployment insurance system is that of ensuring compliance with the system. If system costs are directly imposed on certain groups, then those groups will have an additional incentive to ensure that the regulations and standards of the system are met. In the United States, this occurs through the experience rating of the system.[12] Under an experience-rated system, employers generally monitor eligibility compliance because they are directly affected by unemployment insurance claims of former employees. Some argue that the incentives for employers to monitor the system are too strong in the United States and that the result is an excess of appeals cases.

In the absence of incentives for monitoring compliance such as those created by the experience rating system, the responsibility for compliance falls by default to system administrators. The extent to which compliance

is enforced by unemployment insurance administrators is likely to depend primarily upon other, external incentives. As a result, compliance may be unpredictable and may vary across jurisdictions.

NOTES

1. The discussion that follows is limited to unemployment *insurance* programs, which are distinguished from unemployment *assistance* programs. While unemployment assistance provides aid for the unemployed on the basis of need alone, unemployment insurance programs adhere to some (although not all) insurance principles. Thus, unemployment insurance benefits paid to an individual are related in some way to past contributions made on behalf of that individual. In addition, it is generally understood that funds paid into an unemployment insurance program will not be used for purposes unrelated to the "insurance" that is being provided to covered individuals. Because unemployment insurance programs are usually considered to be *social* insurance programs, however, not all private insurance principles are followed. The structure of a social insurance program and the benefits that it pays to individuals are the result of balancing the often-conflicting objectives of social adequacy and private equity. The benefits paid under such a system are determined both by need and by past contributions. For additional information on unemployment insurance as an insurance program, see Blaustein (1993).

2. The 1980 National Commission on Unemployment Compensation was unable to agree on a general statement of purpose.

3. Unless otherwise noted, all comparisons between the United States and other G-7 nations are taken from Congressional Research Service (1992b). Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States comprise the G-7 nations.

4. The United States is the only G-7 nation without a national wage formula. As a result, there is significant variation across states and it is difficult to make statements that apply to all states. Generally, some features of the most-generous state systems are sometimes comparable with those in other G-7 nations; many features of the systems in average states and less-generous states rank far behind those in other G-7 nations.

5. Two states have greater maximum durations: Massachusetts and Washington allow up to 30 weeks of benefits.

6. In France, the regular 8-month period can increase to 27 months for workers over age 55 who have worked at least 2 of the previous 3 years. In Germany, an additional year of benefits is available for workers over age 54 who have worked at least 6 years. In Japan, an additional 4 months of benefits are available for workers over age 55 who have worked at least 10 years.

7. In Canada, up to 15 additional weeks can be made available on the basis of regional unemployment rates. In France, benefit extensions of up to 7 months can be granted as a result of the unemployment rate. In the United States, 13 weeks can be added on the basis of measures of state unemployment. In addition, the United States has enacted

temporary extensions of benefits during each recession since 1958. No other nation has made use of temporary programs for benefit extensions.

8. Italy is the other G-7 nation that ranked in the lowest two countries in unemployment compensation expenditures as a percentage of GDP after adjustment for unemployment. Per percentage point of unemployment, expenditures in the United States and Italy were, on average, slightly below 0.1 percent of GDP.

9. For additional information on recipiency in the United States, see Advisory Council on Unemployment Compensation (1994).

10. For additional information, see Advisory Council on Unemployment Compensation (1994).

11. Comparing eight countries of the Organization for Economic Cooperation and Development (OECD) in 1985, Atkinson and Micklewright (1991) find that a much higher percentage of those individuals in the United States who were unemployed 12 months earlier had moved into employment than was the case in most of the other countries (49 percent in the United States and Denmark, compared to 32 percent in Italy, 29 percent in France and the United Kingdom, 24 percent in the Netherlands, 22 percent in Belgium, and 18 percent in Ireland). It should also be noted that in the United States, a higher percentage of individuals had also moved out of the labor force entirely.

12. See Chapter 6 for a discussion of the effectiveness of experience rating in bringing about employer involvement in the UI system.

4 / Financing: Links to Program Objectives

THE MECHANISM CREATED TO FINANCE unemployment insurance benefits is the primary means of allocating the economic costs created by the system. By extension, therefore, the financing method that is chosen should reflect the prevailing view in society about the optimal distribution of the costs that result from unemployment. In addition, the financing mechanism should be designed to be consistent with, and even to reinforce, the other objectives that are selected for the program.

Two fundamental factors determine the extent to which a financing structure for unemployment insurance can promote the system's objectives. The first is how the system is financed, which determines the system's *potential* capacity for meeting its objectives. The second factor is the monetary level at which the system is financed, which determines its *actual* capacity for meeting those objectives. This chapter addresses the links among financing choices, structure, and program objectives. In addition, it compares the current financing system in the United States with the systems of other industrialized nations.

FINANCING MECHANISMS

Three basic choices determine the method of financing any unemployment insurance system. The first choice is whether to have a forward-funded or a pay-as-you-go system. The second is whether the system should be financed by workers, employers, the government (through general tax collections), or some combination of the three. If it is decided that either

workers and/or employers should at least partially finance the system, then a third choice is whether revenues from either of those two groups should be generated through a flat tax or an experience-rated tax.

The discussion that follows focuses on the relationship among these choices in designing an unemployment insurance system's financing mechanism and the *potential* capacity of the system to meet the objectives outlined above. The *actual* capacity of the system is addressed in later chapters.[1]

It should be stressed that because much of what is discussed would represent a significant departure from the existing structure of financing the U.S. system of Unemployment Insurance, little research evidence can be drawn upon to inform the discussion. Rather, it is possible only to speculate on the types of effects that such changes in financing could be expected to produce.

Forward Funding Versus Pay-As-You-Go Funding

A forward-funded system accumulates reserves during periods of economic prosperity and draws upon them during recessions. The UI program in the United States operated on a forward-funded basis during its first four decades, but in the past 10 years has moved toward pay-as-you-go funding.[2] Pay-as-you-go systems recoup current and previous benefit costs rather than building a trust fund to withstand increased benefit demands during recessionary periods. A pay-as-you-go system allows states to remain more flexible by avoiding large excess reserves. During periods of recession, however, when unemployment is highest and the demands on the system are greatest, a pay-as-you-go system must rely exclusively on tax increases to accommodate these greater demands.

Who Pays for the System

Three groups could potentially be assigned responsibility for financing an unemployment insurance system—workers, employers, and the government (through general revenues).[3] Currently the UI system in the United States is financed almost entirely through a payroll tax on employers, with provisions for worker payment of a small payroll tax in four states.[4] Economists argue, however, that the entity that actually pays the tax may not be the entity on which the tax is legislatively imposed (that is, the

entity that *appears* to be paying the tax). The ultimate burden of any tax depends on how demand and supply respond to changes in an item's price, including taxes. (This responsiveness is called elasticity.) For example, when the supply of labor is less responsive to price changes than is the demand for labor, workers will bear a greater percentage of the tax (through wage reductions) than employers bear, regardless of whether the tax is legislatively imposed on employers or on workers.[5]

Nevertheless, it seems likely that the legislative selection of the group or groups on which to impose the unemployment insurance tax would have political consequences that could have a significant effect upon the structure of a nation's unemployment insurance system. Imposing the tax on employers, for example, could result in resistance from employers, since they would likely view the tax as a cost to them that generates benefits for others (namely, workers)—even if the tax was ultimately passed on to workers in the form of lower wages and/or to consumers in the form of higher prices. Imposing the tax on workers could result in less resistance, since workers would be expected to view the tax as both a cost and a benefit. If, however, the benefits were paid primarily to one group of workers while the costs were imposed on another group, resistance to a tax imposed on workers would be expected to increase. If the system was financed with government general revenues, political support by taxpayers would probably depend on the distribution of benefits and the public perceptions of the program.[6]

Flat Tax Versus Experience-Rated Tax

If either employers or workers are chosen as the group on which the unemployment insurance tax is legislatively imposed, then a determination must be made about whether to have a flat tax or an experience-rated tax.[7] Under a flat tax, taxes would be imposed uniformly regardless of program use or individual circumstances. Flat taxes on employers could take the form of a fixed amount per worker or a fixed percentage of payroll. Similarly, flat taxes on workers could take the form of a fixed amount per worker or a fixed percentage of a workers' earnings.[8] Flat taxes inherently result in a redistribution of costs between those who cause high unemployment insurance expenditures and those who cause low expenditures.

Currently, the U.S. Unemployment Insurance system relies primarily on an experience-rated payroll tax on employers.[9] This tax is tied to the level

of UI benefits that are paid to the employer's former workers. With "perfect" experience rating, each extra dollar of benefits paid results in an additional dollar of taxes charged to the employer who is deemed responsible for the benefits. With "imperfect" experience rating, the responsible employer is charged less than the full amount of benefits received, resulting in some subsidization among employers. (See Chapter 6 for further information on experience rating.)

Alternatively, some analysts have suggested that it would be possible to have an experience-rated tax on workers (see, e.g., Topel 1990). Under such a system, workers would have individualized accounts similar to the individualized UI accounts that U.S. employers currently have. A worker would pay into his or her account while employed and draw from it when unemployed. Upon returning to work, individuals with low (or negative) account balances would be required to pay a higher tax rate on their earnings. Within such a system, it would be possible to provide a "cash-in" option, whereby the account balance could be turned over to the worker on retirement.[10] If such a system was "perfectly" experience-rated, it would impose extremely high tax rates on individuals who experience the most unemployment.[11]

FINANCING CHOICES AND PROGRAM OBJECTIVES

The discussion that follows focuses on the relationships that might be expected between specific funding mechanisms and the potential capacity to achieve specific objectives of an unemployment insurance system. A funding mechanism might have one of five possible effects. It might (1) actively promote an objective, (2) be consistent with an objective, (3) have an insignificant effect on an objective, (4) be inconsistent with an objective, or (5) actively impede an objective.

Wage Replacement

The extent to which an unemployment insurance system replaces wages depends on both recipiency (that is, the percentage of the unemployed who receive benefits) and the overall level of benefits (that is, weekly benefit amounts and durations). During recessions, pay-as-you-go systems must rely on tax increases as the number of unemployment insurance recipients increases. Since a recession is precisely the time when raising taxes is

most harmful, both to individual employers and to the overall economy, there may be a tendency to reduce benefits during recessions.[12] As a result, a pay-as-you-go system is likely to be less effective in achieving a wage replacement objective than a forward-funded system would be.

As discussed above, imposing a tax on employers is likely to result in employer resistance to the system's wage replacement function—even if the tax is ultimately passed on to workers and/or consumers. Experience-rated taxation of employers may be more detrimental to the wage replacement objective than a flat tax on employers, because under an experience-rated system, it is in the interest of each individual employer to minimize its unemployment insurance costs.[13]

A system paid for either by workers or by the government may result in less resistance to the wage replacement objective than would a system financed by a tax on employers alone. An unemployment insurance tax on workers, for example, might promote the wage replacement objective if workers perceive that they receive benefits in exchange for the costs that the tax imposes on them.

By similar reasoning, financing the system through general revenues, thereby spreading costs among workers and employers, is likely to result in less resistance to the wage replacement objective than would a tax on employers alone. A system financed through general revenues, however, might be expected to encounter more resistance to the wage replacement function than would a system financed exclusively through taxes paid by workers (because employers would pay for at least a portion of such a system).

Economic Stabilization

The extent to which an unemployment insurance system provides economic stabilization is linked to the extent to which the wage replacement function is achieved and also to the funding mechanism of the system (Dunson et al. 1990). During recessions, a pay-as-you-go system is largely ineffective in stabilizing the economy, since it primarily redistributes money rather than pumping previously collected funds back into the economy. A forward-funded system promotes economic stabilization by increasing total buying power during recession.[14]

The economic stabilization objective is closely correlated with the wage replacement objective. Consequently, relative to a system financed by a

tax on employers, a system financed either through general revenues or a tax paid by workers might contribute more effectively to economic stabilization (to the extent that an employer tax impedes the wage replacement objective).

Compared to a flat tax, an experience-rated tax on employers may further impede the wage replacement objective, and, by extension, economic stabilization. On the other hand, to the extent that an experience-rated tax serves to prevent unemployment by reducing layoffs (discussed below), it might contribute to the economic stabilization goal.

Prevention of Unemployment

The extent to which an unemployment insurance system helps prevent unemployment may be indirectly linked to its capacity to stabilize the economy by maintaining overall purchasing power during recessions. For this reason, a forward-funded system may be somewhat more consistent with the prevention of unemployment during economic downturns than a pay-as-you-go system would be. Because a pay-as-you-go system does not represent a drag on the economy, however, it may be more consistent with the prevention of unemployment during periods of expansion.

As discussed earlier, some analysts have suggested that each worker could have an experience-rated account into which the worker contributes while employed and from which he or she draws benefits while unemployed. Under such a system, the incentives to prevent unemployment would be strengthened if workers were allowed to cash in their accounts upon retirement. Workers would be unable to respond to such incentives, however, if there are no jobs available.[15] By similar reasoning, an experience-rated tax on employers could prevent some unemployment to the extent that firms can and do respond to financial incentives that discourage firms from laying off workers.[16]

A flat tax (either on employers or workers) would not provide a financial incentive for preventing unemployment. Similarly, financing through general revenues would probably not have a significant effect on the goal of preventing unemployment, since under such a system the cost of benefits is not at all related to the cause of the unemployment.

Facilitation of Reemployment

An unemployment insurance system's capacity to facilitate reemployment is determined in large part by the reemployment services and incentives

that the system offers. (See Chapters 13 and 14.) The extent to which reemployment is facilitated is also determined both by the level of benefits[17] and by who pays for the benefits. An experience-rated tax on workers could potentially have some influence on reemployment (by creating additional incentives for workers to attempt to reduce the length of their unemployment spells). To the extent that jobs are unavailable, however, workers will be unable to respond to these incentives.

Whether the system is forward-funded or pay-as-you-go is unlikely to have a significant impact on the goal of reemployment. Nor would the system's capacity to facilitate reemployment likely be affected by a choice between employer or government funding.

Conclusions

Table 4-1 summarizes the relationships that are likely to exist between alternative objectives for an unemployment insurance system and a variety of financing mechanisms. Overall, the financing mechanism that might be expected to promote the system's capacity to achieve wage replacement and economic stabilization objectives most effectively would rely on forward funding, either through general revenues or a tax paid (at least partially) by workers. The objective of preventing unemployment might be achieved most effectively by using an experience-rated tax (either on workers or employers). An experience-rated tax on employers, however, might work against the objective of wage replacement and possibly against that of economic stabilization. The reemployment objective might be promoted most effectively by an experience-rated tax on workers. In all cases, however, the effect of experience rating (either of workers or employers) on the system's capacity to achieve its objectives will be mitigated to the extent that unemployment is unavoidable.

UNITED STATES IN COMPARATIVE PERSPECTIVE

All of the G-7 nations use a payroll tax to fund their unemployment insurance program.[18] Six of the seven rely on this earmarked tax exclusively for the payment of benefits, with the taxes varying across countries along a number of dimensions, including the following: (1) the percentage of the tax paid by employers and employees; (2) the taxable wage base; (3) whether the tax is a fixed or variable percentage; and

TABLE 4-1. Anticipated Relationship Between UI Objectives and Financing Mechanisms

Type of Financing Mechanism	Objectives			
	Wage Replacement	Economic Stabilization	Prevention of Unemployment	Facilitation of Reemployment
Forward Funding	Consistent	Promotes	Consistent/Insignificant	Insignificant
Pay-as-You-Go Funding	Inconsistent	Impedes	Insignificant	Insignificant
Experience-rated Tax on Workers	Consistent	Consistent	Promotes	Promotes
Experience-rated Tax on Employers	Impedes	Inconsistent/Impedes	Promotes	Insignificant
Flat Tax on Workers	Consistent	Consistent	Insignificant	Insignificant
Flat Tax on Employers	Inconsistent	Inconsistent	Insignificant	Insignificant
General Revenues	Consistent/Insignificant	Consistent/Insignificant	Insignificant	Insignificant

NOTE: Arrayed from most positive to most negative, the anticipated relationships are as follows: the mechanism *promotes* the objective; the mechanism is *consistent* with the objective; the mechanism is *insignificant* with respect to the objective; the mechanism is *inconsistent* with the objective; the mechanism *impedes* the objective.

(4) among countries with variable tax rates, the dimensions along which the rates vary. The details of financing systems in the G-7 nations are discussed below.

Who Pays for the System

Five of the G-7 nations apply unemployment insurance payroll taxes to both the employer and employee, while Italy and the United States (with the exception of four states[19]) do not tax employees directly.[20] The proportion of the program financed by employers ranges from 37.5 percent in Japan to 100 percent in Italy. Employees' shares range from 0 percent in Italy to 50 percent in Germany. Japan is the only nation that relies upon general government revenues for partial financing of its program, with 25 percent of the system's costs financed by the government. Additional detail on the funding sources for unemployment insurance benefits is available in Table 4-2.

Taxable Wage Base

Two of the G-7 nations, Japan and the United Kingdom, apply their unemployment insurance taxes to all wages. Four other countries have ceilings on taxable wages, ranging from approximately the first $7,000 of a worker's salary in some states in the United States to the first $100,000 of a worker's salary in France. Italy takes the opposite approach, taxing all wages *above* $44 per day.

Tax Rate

Four of the G-7 nations have fixed tax rates, with employee rates ranging from 0.6 percent in Japan to 2.5 percent in France and employer rates ranging from 0.6 percent in Japan to 4.4 percent in France. The United Kingdom, United States, and Italy vary their tax rates on the basis of other criteria. In the United Kingdom, rates vary with wage level. Rates in the United States vary by state and by firm within state, due to the federal-state and experience rating elements of the system. In Italy, rates are higher for industrial and construction firms, while rates for other firms are fixed at a lower level.

TABLE 4-2. Funding Sources for UI Benefits in the G-7 Nations, 1992

Nation	Percent of Benefit Cost Paid from: Payroll Tax on: Employee	Payroll Tax on: Employer	Government	Level of Tax on: Employee Tax Rate	Employee Wage Base[a]	Employer Tax Rate	Employer Wage Base[a]
Canada	42	58	0	2.25	$30,576	3.15	$30,576
France	36	64	0	2.52[b]	97,668	4.43	97,668
Germany	50	50	0	2.15[c]	48,285	2.15[c]	48,285
Italy	0	100	0	—	—	1.61-2.41	Over 11,440
Japan	37.5	37.5	25	0.55[d]	All wages	0.55[e]	All wages
United Kingdom	N.A.	N.A.	0	2.0/9.0[f,g]	31,616[g]	0/5.0-10.45[f,g]	All wages[g]
United States	1-4[h]	96-99[h]	0	0.0-1.125[h]	0-22,600[h]	0.5-5.4[i]	7,000-22,600[i]

NOTE: "N.A." indicates data are not available; a dash (—) indicates such taxes are not paid.

SOURCE: Congressional Research Service (1992b, 8-9).

[a] Wage base figures were converted to U.S. dollars using December 31, 1991, exchange rates and annualized.
[b] Tax rate is 2.47 percent on first $24,420 of earnings.
[c] The employer pays full 4.3 percent for employees earning less than $4,828 per year.
[d] Construction workers and seasonal workers pay 0.65 percent of wages.
[e] Employers of seasonal workers pay 0.65 percent, and construction firms pay 0.75 percent.
[f] The first rate applies to the first $4,160 of weekly earnings and the second rate to additional earnings. A range of rates is shown for employers because the rate is higher at higher wage levels.
[g] The United Kingdom payroll tax funds other social security programs in addition to UI. In 1989, UI benefits were 4.4 percent of these revenues.
[h] Employee share is estimated to be 4 percent or less. Only four states have provisions to tax employees.
[i] Tax rates and taxable wages vary by state, and tax rates vary by firm in each state. The rates shown are the lowest and highest average state rates. The national average tax rate applied to taxable wages in covered employment is 1.9 percent state and 0.8 percent federal. If all covered wages were taxable, the national average rate would be 1.0 percent. The taxable wage base for the median state is $8,250.

NOTES

1. See especially Chapters 5 and 9. The actual capacity of the system to achieve its objectives necessarily hinges on the sufficiency of funds within the system. Not only must the system have sufficient funds to achieve its stated objectives, but it must also have sufficient funds to administer benefits in an efficient and timely manner. Determining whether or not funds are adequate either to pay or to administer benefits is a difficult task that depends on both empirical evidence and value judgments.

2. For the purposes of this discussion, building up reserves could take the form of reducing a negative balance. Consequently, forward funding could consist of relying heavily on borrowing during recessions and paying back loans during periods of expansion.

The increased reliance on pay-as-you-go funding is the result of both a failure to build reserves and a reduced reliance on loans. See Advisory Council on Unemployment Compensation (1994) for more information on this subject.

3. General revenues are, for the most part, collected from workers and employers, but also come from other individuals not in either category.

4. In recent years, Alaska, New Jersey, Pennsylvania, and West Virginia have had provisions for levying UI taxes on employees. In all cases, collections from employees represent only a small percentage of total UI tax collections. Employee taxes in these states are either permanent taxes or triggered surtaxes.

In Alaska and New Jersey, the employee tax is permanent, and has been in place for many decades. (New Jersey, however, has diverted employee tax revenues from the state UI trust fund to a health care and a work force development fund until 1997.) In Alaska, the tax rate on employees varies, but is currently 0.5 percent of the state taxable wage base. In New Jersey, the tax is 0.625 percent of the state taxable wage base. The original purpose of the New Jersey employee tax was to cover UI costs unmatched in the experience rating system. In both states, these employee contributions are only a small percentage of total contributions.

In Pennsylvania and West Virginia, the employee tax is a surtax, used only when federal loans need to be repaid or when the state trust fund falls below a certain level. In both states, the provisions for the tax were enacted within the past 10 years, after extensive consultation with both business and labor organizations. In Pennsylvania, when a solvency index falls below a certain level, variable employee taxes are levied on *all* of an employee's income (not simply the taxable wage base). In recent years, the taxes have been 0.15 percent. Under such circumstances, a surtax is also added to employer taxes. These taxes have been in effect in Pennsylvania since 1992. In 1993, collections from employees represented 9 percent of total contributions.

In West Virginia, employee taxes are levied for debt repayment. (Until 1990, it was also possible to levy the taxes in order to stabilize the state trust fund.) Employees are charged up to 0.35 percent of their total wages. Under such circumstances, employers are also charged a higher rate. It is set to ensure that additional employer contributions equal employee contributions. The employee tax was in effect and was set at the maximum rate between 1987 and 1991. In 1990 and 1991, contributions from the employee tax were approximately 20 percent of total UI contributions collected in West Virginia.

5. Many economists believe that a substantial proportion of taxes that are legislatively imposed on employers are ultimately borne by employees in the form of lower wages. This is discussed in more detail below.

6. For both a worker-financed and government-financed system, the program is likely to have more broad-based support to the extent that (1) benefits are broadly distributed to workers in all socioeconomic groups and (2) the program maintains its distinction as a social insurance program for individuals with labor force attachment (and therefore clearly distinguishes itself from welfare).

7. If the tax is paid by the government out of general revenues, it cannot be experience rated.

8. A variant of flat taxation would be a tax on all earnings (or payroll) either below or above some specified level. If the earnings (or payroll) level on which taxes are paid is capped, then the tax is "regressive" (that is, the tax is a higher percentage of the income of low-income individuals). Alternatively, if taxes are paid only on those earnings (or payroll) that exceed a specified level, the tax is "progressive" (that is, the tax is a higher percentage of the income of high-income individuals).

9. A flat federal tax on employers is used to finance the costs of program administration and 50 percent of Extended Benefits. The majority of states use an experience-rated tax on employers to finance their share (50 percent) of Extended Benefits costs, and the other states finance these costs through a flat tax.

10. Alternatively, workers could be allowed to cash in their account balances to pay for education or training.

11. Consequently, it is likely that an unemployment insurance system financed by taxes on workers' earnings would be "imperfectly" experience rated, with subsidization of individuals who experience substantial unemployment by those who experience little unemployment. Such a system would be similar to the current UI system, which imposes higher taxes on employers who generate the greatest costs to the system, but at the same time pools some of the costs. Such a system would also bear many resemblances to the current Social Security system.

12. For a discussion of the extent to which low reserves tend to result in a reduction in wage replacement, see Advisory Council on Unemployment Compensation (1994).

13. For example, under an experience-rated system, employers may be more likely to deny eligibility or to use the appeals process in order to reduce the number of former workers who receive unemployment insurance benefits. (See Chapter 6.) Under a flat tax system, it would not be in an individual employer's interest to engage in this type of activity.

14. During periods of expansion, a *pay-as-you-go* system does not represent a drag on the economy because it does not build up reserves (or pay back loans), although for these reasons, a *forward-funding* system can serve as a drag on the economy during such periods.

15. Overall, the capacity of an experience-rated cash-in bonus to prevent unemployment is expected to be limited. Evidence suggests that individuals have only a very limited ability to respond to financial incentives designed to reduce

unemployment. See Chapter 13 for a summary of the literature that has examined the extent to which offering reemployment bonuses to unemployed workers can reduce the length of unemployment spells. Such incentives have consistently been found to have a modest effect at best.

16. See Chapter 6 for a review of the literature that has attempted to determine the empirical magnitude of this effect.

17. Holding all else constant, more generous benefits may be expected to result in longer spells of unemployment. On the other hand, more generous unemployment insurance benefits may result in a better job match and possibly higher wages.

18. Unless otherwise noted, all comparisons between the United States and other G-7 nations are taken from Congressional Research Service (1992b). Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States comprise the G-7 nations.

19. See note 4 in this chapter for additional information.

20. As discussed above, however, the entity upon which a tax is legislatively imposed is not necessarily the entity that ultimately pays the tax.

5 / Financing: Forward Funding

IT IS GENERALLY AGREED that forward funding is necessary to ensure that the U.S. Unemployment Insurance system achieves both its wage replacement and economic stabilization functions. (See Chapter 3 regarding UI objectives.) At the same time, excess reserves can create a drag on the economy and also engender the temptation to divert funds to alternative uses. These competing economic concerns require that states continuously engage in a delicate balancing act, which is played out in a political environment. Some states are successful in forward funding their trust funds at "adequate" levels (by some current definitions); others are much less so.[1] Table 5-1 displays the trust fund solvency of states in 1993, as measured by the high cost multiple.[2] Overall, the entire system is at a low level of forward funding by historic standards. (See Advisory Council on Unemployment Compensation 1994.) If the economy were to experience a deep recession (as in the 1970s) or back-to-back recessions (as in the early 1980s), most analysts agree that the UI system generally would be forced to move to one of the following alternatives: (1) reductions in program size through the enactment of stricter eligibility requirements and/or smaller benefit payments (Vroman 1990), or (2) reliance on heavy borrowing.

State borrowing often represents an appropriate response to a deep or prolonged recession. For this reason, the federal government maintains a federal loan program. In the recent past, however, heavy state borrowing has raised a number of concerns about the interest rates charged on loans, the terms of loan repayment, and the penalties (or lack thereof) for failure

TABLE 5-1. High Cost Multiple, by State, 1993

State	HCM	State	HCM
Virgin Islands	2.08	New Hampshire	0.68
Puerto Rico	1.90	North Dakota	0.68
New Mexico	1.77	New Jersey	0.67
Oklahoma	1.55	Montana	0.63
Kansas	1.54	Nevada	0.61
Oregon	1.44	South Carolina	0.61
Hawaii	1.42	Kentucky	0.57
Utah	1.40	Arizona	0.51
Washington	1.40	California	0.38
Mississippi	1.39	West Virginia	0.37
Wyoming	1.35	Rhode Island	0.36
Iowa	1.22	Pennsylvania	0.33
Delaware	1.18	Arkansas	0.32
South Dakota	1.18	Minnesota	0.30
Indiana	1.15	Ohio	0.28
Vermont	1.14	Illinois	0.27
Idaho	1.10	Texas	0.26
North Carolina	1.06	Maryland	0.25
Alaska	1.00	Maine	0.22
Nebraska	0.96	Michigan	0.11
Wisconsin	0.92	District of Columbia	0.03
Colorado	0.91	New York	0.03
Alabama	0.89	Connecticut	0.00
Georgia	0.84	Massachusetts	0.00
Louisiana	0.80	Missouri	0.00
Florida	0.78		
Virginia	0.77	U.S. Average	0.57
Tennessee	0.72		

SOURCE: U.S. Department of Labor (1994c).

to meet these terms. These concerns have pointed to the critical interaction between the federal loan program and the need for responsible, but not excessive, forward funding by the states.

Many experts agree that the federal government must play a vital role in ensuring that the UI system is able to serve as an economic stabilizer for the nation (see, e.g., Blaustein 1993). In pursuing this goal, the federal government has a number of options from which to choose, many related to the federal loan program. It can maintain the status quo (as described in the next section), or it can opt for a more active role. For example, the federal government could establish forward-funding *minimum standards*, with penalties for not meeting the standards. Alternatively, it could establish forward-funding *goals* (which would presumably be set at higher levels than minimum standards), accompanied by a set of financial incentives—rewards or penalties—for achieving or failing to achieve those goals.

Several issues, including the following, must be considered in establishing either minimum standards or goals: (1) a method for measuring the degree of a state's forward funding, (2) the desired level of that measure, (3) a method for determining the conditions under which a state's progress toward achieving the measure is or is not sufficient, and (4) a penalty or incentive structure. The following sections discuss the available policy options.

CURRENT SITUATION

Currently, the U.S. Department of Labor recommends a voluntary solvency guideline of a high cost multiple of 1.5, which has also been endorsed by the Interstate Conference of Employment Security Agencies (ICESA).[3] There is, however, no direct incentive from the federal government that encourages states to pursue this goal.

Loan and Repayment Provisions

Interest-free, short-term loans from the federal government are available to the states in order to ameliorate cash-flow problems during the year.[4] Since 1982, interest has been charged if loans are not repaid by September 30 of the calendar year in which the advances were made. The interest rate charged by the federal government on such loans is identical to that

paid by the federal government to the states on their positive trust fund balances.[5]

In addition to interest charges, *penalties* are assessed on any loans that are not repaid within 22 to 34 months after they are obtained.[6] After that time, employers in the state are subject to reductions in the 5.4 percent offsetting tax credit under the Federal Unemployment Tax Act (FUTA). The penalty structure, which is the result of a number of pieces of legislation, is quite cumbersome. In the first effective calendar year, the FUTA credit reduction is 0.3 percent. This credit reduction increases over time and is applied to loan repayment. There are, however, opportunities for states to defer or cap the penalties if they meet a number of specific criteria, including those related to tax structure, unemployment rate, changes in state solvency status, or loan repayment.[7] These factors are not related in any way, however, to the Department of Labor's voluntary solvency standard.

MINIMUM STANDARDS OR GOALS

The federal government could choose a minimum forward-funding standard or a forward-funding goal for states, along with accompanying financial incentives. The purpose of a forward-funding *minimum standard* would be to assure that all states make a *minimal* effort to forward-fund their systems during times of economic health, thereby improving the overall national macroeconomic stabilization capacity of the system. A minimum forward-funding standard would affect those states with extremely low trust fund reserves but would have little or no impact on states already maintaining minimal forward funding. Such a standard would be similar in spirit to other legislated minimum standards and would allow individual states to determine what they believe their optimum funding strategy should be (provided it met this minimum standard). A minimum standard would allow individual states to incorporate both forward-funding and pay-as-you-go mechanisms (that is, financing mechanisms—such as multiple tax schedules linked to solvency or solvency surtaxes—that are activated during economic downturns to help prevent insolvency but that do not help achieve forward funding).

The purpose of establishing an *enforceable optimal goal* for forward funding, on the other hand, would be to increase significantly the reserves of the entire UI system. Unlike a minimum standard, this could affect

most states. Setting "optimal" targets with accompanying financial incentives would be a significant departure from federal-state interactions in other areas of the UI system, in which the federal government has tended to establish minimum standards.

Forward-Funding Measure

There is no ideal measure of trust fund solvency that can determine the most appropriate level and type of forward funding. Absolute trust fund levels, for example, are not a good measure of forward funding, since they are not related to changes in wages or the size of the labor force.

The most frequently used measure to assess the adequacy of trust fund reserves is the high cost multiple (HCM).[8] The HCM is a rough estimate of how long recession-level benefits could be paid from a state's current trust fund balance. It is calculated by dividing a state's reserve ratio by the highest cost rate (that is, the highest ratio of benefits paid divided by total covered wages) incurred in any 12-month period. The strong historical correlation between the value of the HCM and a state's borrowing experience suggests that it is a fairly good predictor of forward funding (see Table 5-2).

The HCM, however, suffers a number of limitations. For example, it may be a poor measure of *future* trust fund adequacy when states have made significant changes to their UI provisions (for example, changes in eligibility standards or benefit levels). In addition, it is not a perfect predictor of fund adequacy, since states that build an HCM of 1.0 or 1.5 may still find it necessary to resort to heavy borrowing when faced with a deep or prolonged recession. Finally, many state tax systems are already structured to respond to declines in trust fund balances by employing techniques such as solvency surtaxes and multiple tax schedules linked to trust fund adequacy. While these methods may help ensure solvency, they do not help achieve forward funding, and their effectiveness is not reflected in the HCM.[9]

It is possible that some of the problems with the HCM can be corrected by technical modifications to the formula. Some analysts believe the current method of calculating the HCM may be too conservative, because it measures current reserves relative to the highest cost period *ever* incurred by a state. High cost periods incurred many years ago may no longer be relevant if a state's labor force and/or UI system have changed signif-

TABLE 5-2. Relationship Between High Cost Multiple and Actual Borrowing Patterns

Value of High Cost Multiple (HCM)[a]	No. of States in 1974-1979, by HCM:			No. of States in 1980-1987, by HCM:		
	States	Borrowers	Large Loans	States	Borrowers	Large Loans
2.00+	9	0	0	0	0	0
1.50-1.99	12	2	1	2	0	0
1.00-1.49	12	5	1	12	2	1
0.50-0.99	14	12	8	16	10	5
< 0.50	5	5	5	22	19	8

SOURCE: Vroman (1990, 49).

[a] HCMs are measured in December 1973 and December 1979. Large loans are defined as those exceeding 1 percent of total wages.

icantly. Under these circumstances, it may be more appropriate to calculate the highest cost rate within a shorter historical period. An alternative modification to the current HCM would be to base the calculation on the second-highest (rather than the highest) cost period, or on an average of the highest cost years within a given time period. This form of modification would have the effect of producing a somewhat less conservative measure of forward funding.

The HCM has merit as both a simple and as a widely recognized measure of forward funding. Nevertheless, it is an imprecise measure. As a result, the higher the level of a proposed HCM standard (that is, a standard requiring more absolute reliance on forward funding), the more care must be given to its adoption. The application of stringent criteria regarding the HCM (or any other forward-funding standard) could be inequitable to some states, because no single measure can incorporate all relevant state differences in UI program laws and operations, industry concentration, and economic growth.

Level of the Forward-Funding Measure

There is perhaps general agreement that extremes in forward funding are inappropriate. Most would probably agree, for example, that 3 months of benefit reserves do not represent a sufficient level of forward funding and that 48 months of reserves are excessive. There is less agreement, however, regarding the appropriate level for either a minimum standard or optimal forward-funding goal. As noted above, both the U.S. Department of Labor and ICESA have endorsed a voluntary guideline (similar to an optimal goal) of a 1.5 HCM.[10]

Table 5-3 shows the number of states that would have achieved a forward-funding goal, based on a variety of alternative HCM measures and a variety of levels. For example, as of December 1993, 20 states had accumulated enough reserves to pay at least 1 year of benefits at the highest ratio of benefits ever paid in the state (that is, using the current definition of HCM). If the most recent 20-year period is used for calculating the highest cost rate, then 21 states would have accumulated reserves of at least 1 year; if the most recent 10-year period is used, 32 states would have accumulated reserves of at least 1 year. Table 5-4 identifies those states that had achieved an HCM of 1.0 or more (that is, accumulated at

TABLE 5-3. Number of States That Meet Various Forward-Funding Goals Using Alternative HCM Definitions and the Reserve Ratio

No. of States with an "HCM" of at Least:	Current HCM Definition (no. of states)	No. of States Meeting Alternative Measures					
		Highest Cost in 20 Years	Second-Highest Cost in 20 Years	Average of 3 Highest Costs in 20 Years	Highest Cost in 10 Years	Second-Highest Cost in 10 Years	Average of 3 Highest Costs in 10 Years
0.25	46	46	47	47	46	47	47
0.50	36	36	36	36	38	44	42
0.75	28	28	34	34	35	38	36
1.00	20	21	28	28	32	34	34
1.25	11	13	23	19	29	34	32
1.50	5	5	16	13	24	28	28
1.75	3	3	10	5	16	26	25

NOTES: The current HCM is the 1993 reserve ratio divided by the highest cost rate in any 12-month period (that is, period with highest ratio of benefits paid divided by total wages in covered employment). The alternative HCMs use high cost rates in the preceding 10 years (calendar years 1983 through 1992) or the preceding 20 years (calendar years 1973 through 1992). All calculations use 1993 reserve ratios.

SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994b,c).

TABLE 5-4. States That Had at Least 1 Year of Reserves (as of December 1993)

State	Alternative Measures						
	Current HCM Definition	Highest Cost Rate in 20 Years	Second-Highest Cost Rate in 20 Years	Average of 3 Highest Cost Rates in 20 Years	Highest Cost Rate in 10 Years	Second-Highest Cost Rate in 10 Years	Average of 3 Highest Cost Rates in 10 Years
Alabama	—	—	X	X	X	X	X
Alaska	X	X	X	X	X	X	X
Arizona	—	—	—	—	X	X	X
Arkansas	—	—	—	—	—	—	—
California	—	—	—	—	—	—	—
Colorado	—	—	X	X	—	X	X
Connecticut	—	—	—	—	—	—	—
Delaware	X	X	X	X	X	X	X
District of Columbia	—	—	—	—	—	—	—
Florida	—	—	X	X	X	X	X
Georgia	—	—	X	X	X	X	X
Hawaii	X	X	X	X	X	X	X
Idaho	X	X	X	X	X	X	X
Illinois	—	—	—	—	—	—	—
Indiana	X	X	X	X	X	X	X
Iowa	X	X	X	X	X	X	X
Kansas	X	—	X	X	X	X	X
Kentucky	—	—	—	—	—	X	X

(continued)

TABLE 5-4. (continued)

State	Alternative Measures						
	Current HCM Definition	Highest Cost Rate in 20 Years	Second-Highest Cost Rate in 20 Years	Average of 3 Highest Cost Rates in 20 Years	Highest Cost Rate in 10 Years	Second-Highest Cost Rate in 10 Years	Average of 3 Highest Cost Rates in 10 Years
Louisiana	—	—	—	—	—	—	—
Maine	—	—	—	—	—	—	—
Maryland	—	—	—	—	—	—	—
Massachusetts	—	—	—	—	—	—	—
Michigan	—	—	—	—	—	—	—
Minnesota	—	—	—	—	—	—	—
Mississippi	X	X	X	X	X	X	X
Missouri	—	—	—	—	—	—	—
Montana	—	X	X	X	X	X	X
Nebraska	X	X	X	X	X	X	X
Nevada	—	—	—	—	X	X	X
New Hampshire	—	—	X	X	X	X	X
New Jersey	—	—	—	—	X	X	X
New Mexico	X	X	X	X	X	X	X
New York	—	—	—	—	—	—	—
North Carolina	X	X	X	X	X	X	X
North Dakota	—	—	—	—	—	—	—
Ohio	—	—	—	—	—	—	—
Oklahoma	X	X	X	X	X	X	X
Oregon	X	X	X	X	X	X	X

Pennsylvania	—	—	—	—	—	—	—
Puerto Rico	X	X	X	X	X	X	X
Rhode Island	—	—	—	—	—	—	—
South Carolina	—	—	—	—	X	X	X
South Dakota	X	X	X	X	X	X	X
Tennessee	—	—	—	—	X	X	X
Texas	—	—	—	—	—	—	—
Utah	X	X	X	X	X	X	X
Vermont	X	X	X	X	X	X	X
Virgin Islands	X	X	X	X	X	X	X
Virginia	—	—	X	X	X	X	X
Washington	—	X	X	X	X	X	X
West Virginia	—	—	—	—	—	—	—
Wisconsin	X	X	X	X	X	X	X
Wyoming	X	X	X	X	X	X	X

NOTE: An "X" indicates that the state has achieved a trust fund balance equal to at least 1 year of reserves in the "high cost" year(s).

SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994b,c).

least 1 year of reserves), based on the various measures of high cost multiples used in Table 5-3.

Measuring Satisfactory Progress

Under certain circumstances, the government could require that a state need only be moving toward compliance at an acceptable rate, rather than that it immediately achieve the appropriate level of a forward-funding standard. These circumstances could include the period following the initial introduction of such a standard, and also those times when a state's UI program is operating in the midst of economic decline, is recovering from an economic downturn, or is in debtor status. Granting incentives, such as preferential loan treatment, to such a state would require a method for determining when a state's progress toward forward funding was satisfactory.

During the post-World War II period, recessions have occurred, on average, every 5 years. The past two decades have seen back-to-back recessions, followed by a long recovery. Nevertheless, the average over these two decades is still quite similar to the general average over the entire post-World War II period. On average, the typical recession lasts approximately 11 months, and the typical period of expansion prior to the onset of the next recession is approximately 50 months.

This suggests that the following method may represent a reasonable standard for establishing satisfactory progress. On average, a state's UI trust fund should be recovering at a rate that would enable the forward-funding goal to be achieved prior to the onset of the next recession. If, for example, at the end of a recession a state had a trust fund balance of zero, then each month the UI trust fund would need to grow by about 2 percent of the total amount required to achieve the HCM target (since the next recession would, on average, be expected to occur in 50 months). If, however, the state ended the recession with an HCM of 0.5, satisfactory progress toward the forward-funding goal would only require that the trust fund grow by approximately 1 percent of the HCM target per month. The target *annual* growth rates in these two examples would be 24 percent and 12 percent, respectively.

The criterion for measuring satisfactory progress should make allowances for states that were recovering from a recession but that still had unusually high unemployment. In such states, "satisfactory progress"

would allow a slower recovery rate than in an otherwise comparable state with a lower level of unemployment.

A matrix of targeted recovery rates could be developed for a variety of combinations of unemployment and solvency. States with low unemployment would be expected to recover more quickly than those with high unemployment. States with low levels of solvency would need to recover more quickly than those with higher levels of solvency.

Table 5-5 presents a hypothetical example of the annual recovery rates that might be used to determine whether a state had (in the past) made satisfactory progress toward forward funding, which would qualify it (in the future) for financial incentives. Suppose, for example, that a state was beginning to recover from a recession, its insured unemployment rate was declining, its overall unemployment rate was 6 percent, and its trust fund had reserves equivalent to one-half year of high cost benefits. "Satisfactory progress" for this state could be defined as being achieved if the annual growth of the trust fund was equal to 12 percent of the HCM goal. An otherwise comparable state with an overall unemployment rate of 8 percent would be expected to achieve a lower annual accumulation rate, perhaps 8 percent per year. For those states in which reserves had been more depleted (for example, zero reserves and a 6 percent unemployment rate), satisfactory progress might require a higher annual accumulation rate, perhaps 24 percent.

TABLE 5-5. An Example of Satisfactory Progress for Forward-Funding of States' UI Trust Funds

Trust Fund Reserve	Unemployment Rate						
	3%	4%	5%	6%	7%	8%	9%
-0.50	72	60	48	36	30	24	18
-0.25	60	50	40	30	25	20	15
0.00	48	40	32	24	20	16	12
0.25	36	30	24	18	15	12	9
0.50	24	20	16	12	10	8	6
0.75	12	10	8	6	5	4	3

NOTES: The numbers in this table are suggestive of the types of targets that might be set. They represent the percentage of the HCM target that a state would accumulate over the course of a year during which the state's economy is not in a recession.

Incentive Structure

The federal government could use penalties and/or rewards to encourage states to meet forward-funding goals or standards. One penalty for non-conformance (that is, for not making satisfactory progress toward a forward-funded trust fund or not maintaining the appropriate trust fund level) could be the loss of some portion of the FUTA offsetting tax credit. Any amounts collected through the penalty could be deposited directly in that state's UI benefit account.[11] Such a system would have the effect of imposing the specified recovery rate on a state's trust fund.[12]

Two types of rewards could be offered. The federal government could offer a reduced, or "preferential," interest rate to states that had met or made satisfactory progress toward the chosen forward-funding criteria, but still found themselves needing to borrow to pay UI benefits during a recession.[13] Alternatively, the federal government could offer supplemental interest payments on a portion of the reserve balance to those states that maintained the designated level of forward funding. For example, the federal government could offer a one-half point interest rate premium on balances within some range (such as a reserve balance above 1 high cost year but below 1.5 high cost years).

It is impossible to calculate the cost of implementing financial incentives of this type, since the costs would depend on the number of states that both qualified for and made use of the preferential treatment. It is likely that more generous financial incentives offered by the federal government to encourage forward funding would result in greater—and therefore more costly— responses by the states. If the financial incentives were small, they would be expected to generate a smaller response from the states and would, therefore, be less expensive.

In addition to the hypothetical penalties and rewards discussed above, an additional change might be made to the existing financing arrangement, under which the federal government currently offers interest-free "cash-flow" loans to states that borrow and repay an amount by September 30 of the calendar year in which the advance was made. This currently creates a financial disincentive for states to forward fund their UI programs. Eliminating these short-term, interest-free loans would remove this incentive. It would also bring additional interest revenue to the federal trust funds from the states. From the federal perspective, the savings that would result are displayed in Table 5-6.

TABLE 5-6. Cost of Federal Interest-free Loan Program

Year	Average Daily Loan Balance (millions of dollars)	Annual Interest Rate (percent)	Annual Cost (millions of dollars)
1983	122.0	10.8	13.2
1984	20.9	9.8	2.0
1985	77.7	10.4	8.1
1986	57.8	10.0	5.8
1987	92.6	9.3	8.6
1988	25.8	8.5	2.2
1989	0.0	8.4	0.0
1990	0.0	8.7	0.0
1991	0.0	8.6	0.0
1992	19.8	8.1	1.6
1993	98.5	7.5	7.3

NOTES: The data are rounded. The *total* cost of the interest-free loan program over the entire 11-year period was $48,867,529.

SOURCE: ACUC calculations based on data from the Unemployment Insurance Service, U.S. Department of Labor.

NOTES

1. It should be noted that there may be low federally held trust funds in a few states that have decided to accumulate separate state-level trust funds. This may be a result of state reluctance to contribute large reserves to state trust funds that are included as part of the unified federal budget.

2. The definition of the high cost multiple and alternatives to this measure are discussed below (see the subsection, "Forward-Funding Measure," in the section on "Minimum Standards or Goals").

3. While the 1980 National Commission on Unemployment Compensation did not recommend a federal standard, it did note that "further study should be devoted to the concept of a Federal solvency standard, not only to determine an appropriate standard, but also to see how it could be administered." The Commission did recommend that "each state should develop in its State law a specific solvency plan to finance benefits over a business cycle and to maintain adequate reserves to accomplish that result." It recommended that states have a 2.0 HCM (using a modified HCM definition) at the beginning of any economic downturn. National Commission on Unemployment Compensation (1980).

4. The repayment provisions are set by Congress but are not related to the Department of Labor's voluntary solvency guideline. The provisions reflect the perspective that some short-term borrowing is to be expected (and therefore is not necessarily undesirable), but that over the long term, states that are insolvent should be assessed additional charges and be "forced" to repay their loans. An additional policy option would involve modest reform of the current situation through simplification of the current loan and repayment provisions.

5. The rate is determined by the weighted average of all long-term and short-term federal debt during the last quarter of the preceding calendar year.

6. In order to avoid penalties, states must repay any outstanding loans from the federal government by November 10 of the calendar year in which the second consecutive January 1 passes after the state borrowed the funds. For example, if a state borrowed on January 2, 1994, it would have until November 10, 1996, to pay back the loan. If, however, the state borrowed on December 31, 1993, it would only have until November 10, 1995, to make repayment.

7. For additional detail on the penalties and how they are assessed, see Congressional Research Service (1992a) or Advisory Council on Unemployment Compensation (1994).

8. Alternative measures, which are often more complex than the HCM, have been proposed to measure trust fund adequacy. One alternative measure, for example, estimates the maximum insured unemployment rate (IUR) a state can reach while remaining solvent. Based on various levels of the IUR, this measure determines the level of current benefits that could be sustained over the next year in the state. The research literature, however, has been unable to identify an indicator or group of indicators that is clearly superior to the HCM.

9. These techniques usually take the form of automatic pay-as-you-go financing mechanisms that are activated during economic downturns to help prevent insolvency.

10. A few states have adopted more conservative guidelines (that is, reflecting higher HCMs), while some researchers have advocated an optimal HCM of closer to 1.0. As of December 1993, only five states had a high cost multiple of 1.5 or more, indicating that a standard set at this level would affect the vast majority of states.

11. This would require a transfer of funds, since FUTA (that is, federal tax) collections from employers are normally deposited into federal accounts that pay for the administration of UI benefits. Under the proposed penalty, some portion of the FUTA funds would be deposited in the state accounts that pay UI benefits.

12. If the penalty was in effect, a state's trust fund would recover at the same rate as if the state had followed the specified target recovery path. The only difference would be that the funds collected through a penalty would be collected later and would not be experience-rated, as they probably would have been if collected through an increase in state employer taxes.

13. States could be allowed to borrow funds not only to finance their benefits but also to cover their administrative costs if the allocations they received were insufficient during times of economic downturn.

6 / Financing: Experience Rating

THE FUNDAMENTAL METHOD of financing the U.S. system of Unemployment Insurance has been a contentious issue since the system was established. During the debates in the 1930s that shaped the basic structure of the system, some argued that it should be funded through an "experience-rated" tax that imposes the highest tax rates on employers that generate the most cost to the system. Others argued that the system should be financed by a flat tax on employers.

Proponents of experience rating eventually prevailed. They argued that experience rating had the following three fundamental advantages, which are still offered today as reasons for its continuance: (1) the encouragement of stable employment, (2) the attribution of the costs of unemployment insurance benefits to the employer responsible for the unemployment, and (3) the creation of an incentive for employers to participate actively in policing the UI program.

Despite these apparent advantages, the United States is the only nation that chooses to finance its UI system through an experience-rated tax. As a result, experience rating has come under close scrutiny and has been the subject of ongoing debate. To some, experience rating is the root problem with the UI system, in that its strict allocation of costs tends to limit benefits as employers seek to minimize their costs.[1] To others, experience rating is an essential component in making unemployment benefits one of the costs of doing business.

In the 1960s, Congress debated the elimination of experience rating, focusing on the burdens created by employers who contested claims to

avoid increases in their tax rates. During the late 1970s and 1980s, however, congressional debate focused more on ways to increase the amount of experience rating within the system. Despite this ongoing debate, the federal statute that broadly governs states' experience rating systems has remained largely unchanged.[2] Over time, however, state legislators, operating within these broad federal guidelines, have refined the ways in which employers' experiences with unemployment benefit payment will affect their UI taxes.

SYSTEMS OF EXPERIENCE RATING

Over the years, states' experience rating provisions have become increasingly varied and complex. Although these systems vary substantially in many ways, the incentives that they create are generally similar. Under each of these methods, employers are ranked annually against one another and are assigned a specific tax rate based on that ranking, with employers who generate more costs to the system assigned a higher rate.

In all states, employers pay an assigned UI tax rate on the amount of their taxable wages, which are those annual wages for each employee that fall below a prescribed base level. The actual ranges of employer tax rates, summarized in Table 6-1, vary substantially from state to state. In the 1993 tax year, the states' minimum tax rate varied from 0 percent (in 7 states) to a high of 2.5 percent in New York. The maximum tax rate on taxable wages varied from 5.4 percent (in 13 states) to a high of 10.5 percent in Pennsylvania.[3] As a result of the range in tax rates and taxable wage bases, taxes paid range from zero for some employers to more than $900 per worker for other employers. Within a state, the entire schedule of tax rates is often adjusted up or down, depending on the balance in the state trust fund.[4]

In general, the states' current systems of experience rating can be classified in one of four categories: reserve ratio, benefit ratio, benefit-wage ratio, and payroll decline.[5] Specific experience rating systems are discussed in more detail below and are summarized in Table 6-2.

Reserve Ratio

The reserve ratio formula, which is used by 33 states, is the most common method of experience rating. An account is established for each employer;

TABLE 6-1. Effective UI Tax Rates for Employers, by State, 1993

State	Percent of Taxable Wages		Average Rate	
	Maximum Rate	Minimum Rate	Percent of Taxable Wages	Percent of Total Wages
Alabama	6.0	0.4	1.5	0.6
Alaska	5.4	1.0	2.5	1.6
Arizona	6.4	0.1	1.5	0.5
Arkansas	6.0	0.1	2.9	1.3
California	5.4	1.1	3.5	1.0
Colorado	5.4	0.0	1.3	0.6
Connecticut	6.4	1.5	3.4	0.8
Delaware	9.5	1.0	2.4	0.8
District of Columbia	7.5	2.0	3.9	1.1
Florida	6.4	0.2	1.8	0.6
Georgia	8.6	0.1	1.5	0.5
Hawaii	5.4	0.0	1.0	0.7
Idaho	5.4	0.5	1.8	1.2
Illinois	7.7	0.6	3.0	1.0
Indiana	5.5	0.2	1.4	0.4
Iowa	7.5	0.0	1.6	0.8
Kansas	6.4	0.1	1.9	0.8
Kentucky	9.0	0.3	2.1	0.8
Louisiana	6.0	0.3	1.9	0.7
Maine	7.5	2.4	4.0	1.4
Maryland	8.1	1.8	3.1	1.1
Massachusetts	8.1	2.2	4.1	1.6
Michigan	10.0	1.0	4.2	1.4
Minnesota	9.1	0.6	1.8	0.9
Mississippi	5.4	1.2	2.3	0.9
Missouri	7.8	0.0	2.2	0.7
Montana	6.4	0.3	1.3	0.9
Nebraska	5.5	0.1	1.1	0.4
Nevada	5.4	0.3	1.6	0.9
New Hampshire	6.5	0.1	2.3	0.7
New Jersey	5.8	0.5	1.1	0.5
New Mexico	5.4	0.6	1.6	0.8
New York	7.0	2.5	4.7	1.1
North Carolina	5.7	0.0	1.0	0.5
North Dakota	5.4	0.4	1.5	0.8
Ohio	8.5	0.7	2.8	1.0
Oklahoma	5.5	0.1	1.1	0.5
Oregon	5.4	1.6	2.6	1.6

(continued)

TABLE 6-1. (continued)

State	Percent of Taxable Wages		Average Rate	
	Maximum Rate	Minimum Rate	Percent of Taxable Wages	Percent of Total Wages
Pennsylvania	10.5	2.1	5.3	1.7
Puerto Rico	5.4	1.0	3.0	1.4
Rhode Island	8.3	2.2	3.7	2.1
South Carolina	5.4	1.2	1.9	0.6
South Dakota	7.0	0.0	0.5	0.2
Tennessee	10.0	0.2	1.8	0.6
Texas	6.4	0.3	1.6	0.6
Utah	8.0	0.4	1.0	0.6
Vermont	5.9	0.6	2.7	1.0
Virginia	6.3	0.2	1.3	0.4
Washington	5.4	0.5	2.3	1.4
West Virginia	8.5	1.5	3.1	1.2
Wisconsin	9.8	0.0	2.2	0.9
Wyoming	8.8	0.3	2.2	1.0
U.S. Average			2.5	0.9

SOURCES: U.S. Department of Labor (1994a,c).

contributions are credited to the account and benefits paid to former employees are charged against the account. The balance is carried over from year to year for the duration of the employer's activity.

The reserve ratio is defined as the account's balance relative to the employer's annual taxable payroll. The higher an employer's reserve ratio, the lower the assigned tax rate. Conversely, the lower an employer's reserve ratio (which can be negative), the higher the assigned tax rate.

Benefit Ratio

The benefit ratio formula is used by 17 states to experience rate UI benefits. Under this formula, firms pay taxes in proportion to the ratio of *benefits* paid relative to taxable wages, without directly taking contributions into account. Because this ratio uses only the most recent 3 years of data to assign tax rates, the benefit ratio formula is more short term in its focus than is the reserve ratio formula, which incorporates the entire life span of an employer's account.

TABLE 6-2. Systems of Experience Rating

System	Individual Employer's Tax Rate Based on:	No. of States	Percent of Covered Employment, 1993
Reserve Ratio	Cumulative contributions minus cumulative benefits charged, divided by average taxable payroll over the entire history of the firm.	33	58.5
Benefit Ratio	Employer's benefit charges over previous 3-year period, divided by taxable payroll over the same period.	17	39.7
Benefit-Wage Ratio	Amount of wages paid to former employees who collect UI benefits and total state benefits over past 3 years.	2	1.4
Payroll Decline	Percentage decline in quarterly payroll.	1	0.2

SOURCE: U.S. Department of Labor, Unemployment Insurance Service.

Benefit-Wage Ratio

The benefit-wage ratio formula is now used by only two states—Oklahoma and Delaware. Under this formula, experience is measured by the number of former employees who draw benefits, as well as by their "benefit wages," which are defined as their wages in the year prior to separation from the employer. A statewide experience factor, which measures the total amount of benefits paid in the state in the previous 3 years, is calculated. Employer rates are determined by multiplying an employer's proportion of charged benefit wages by the state experience factor. Thus, the tax rates that are established generate revenues equal to the total benefits paid out.[6]

Payroll Decline

The payroll decline method of experience rating is now used only by Alaska.[7] Under this method, an employer's tax rate is determined by declines in payroll over the previous years without any reference to whether benefits were paid to the employer's former workers. This system rests on the assumption that payroll declines reflect an employer's general experience with unemployment. The payroll decline system is the only method in use that does *not* relate employer tax rates directly to the number of former employees who actually draw UI benefits.

FACTORS AFFECTING THE DEGREE OF EXPERIENCE RATING

The degree to which an experience rating system succeeds in assigning UI benefit costs to the employer who generates an individual cost depends on the details of the system. If a number of provisions allow assignable UI costs to be paid for by entities other than the responsible employer, then the degree of overall experience rating in the system declines. The most important factors affecting the level of experience rating in a state system include the following: the types of benefits that are not charged to an employer, the minimum and maximum tax rates that can be imposed, the number and size of firms that go out of business, the state taxable wage base, and the method by which benefit costs are assigned to an individual employer. These factors, which vary considerably by state, are discussed below.

Noncharged Benefits

All states provide that, in some circumstances, certain benefits paid are not charged to the account of an individual employer, but instead are shared among all UI taxpayers. The purpose of adopting a noncharging provision is often to reduce employer opposition to a particular kind of benefit. Common forms of noncharged benefits include these: (1) payments to workers who quit their last job, (2) dependents' benefits, (3) payments to workers who are enrolled in approved training, (4) erroneous benefit payments that are not recovered, and (5) the state share of the Extended Benefits program. Differences among the states in the use of noncharged benefits are substantial, ranging in 1993 from 1 percent in the District of Columbia to 32 percent in Washington (see Table 6-3).

TABLE 6-3. Noncharged Benefits, by State, 1993

State	Percent of Total Benefits	State	Percent of Total Benefits
Delaware	0.8	Oklahoma	12.9
New York	1.1	Arizona	13.4
Michigan	2.1	Wyoming	14.3
New Hampshire	3.6	New Mexico	14.7
West Virginia	4.6	Kansas	15.5
Kentucky	4.8	Alabama	16.3
Connecticut	5.4	Montana	16.8
Colorado	5.6	Georgia	17.3
California	6.0	Missouri	17.6
Rhode Island	6.3	Idaho	17.7
Ohio	6.9	Texas	17.7
New Jersey	8.2	Oregon	17.8
Illinois	8.6	South Dakota	17.9
Virginia	8.9	North Carolina	18.2
Indiana	9.3	Mississippi	18.4
Pennsylvania	10.2	Utah	19.7
Louisiana	10.6	Vermont	20.2
Iowa	11.0	Arkansas	20.8
Nevada	11.3	South Carolina	21.1
Tennessee	11.5	Maine	22.2
Wisconsin	12.1	Nebraska	26.2
Minnesota	12.4	Massachusetts	28.4
North Dakota	12.6	Hawaii	28.7
Florida	12.8	Washington	31.8

NOTE: Data are not available for Alaska, the District of Columbia, Maryland, Puerto Rico, and the Virgin Islands.

SOURCE: U.S. Department of Labor, Unemployment Insurance Service.

Ineffectively Charged Benefits

Ineffectively charged benefits develop when an individual employer's tax rate is too low to cover the benefits paid to that employer's former employees, which happens when employers are at a state's maximum tax rate. Under these circumstances, benefits charged against the employer neither draw on accumulated past taxes nor trigger additional current taxes. Such ineffective charges become a drain to the system which must be made up in some way through taxes paid by other employers.[8]

During 1993, average ineffective charges in the United States ranged from less than 1 percent in Montana to 39 percent in Oklahoma (see Table 6-4). As expected, the average maximum tax rate was higher in states with fewer ineffective charges. Among the 10 states with the lowest ineffective charges, the average maximum tax rate was 6.7 percent. The 10 states with the highest ineffective charges had an average maximum tax rate of 6.0 percent.

At the end of each fiscal year, several states also automatically reduce the size of an employer's negative balance to a maximum percentage of the employer's payroll.[9] As a result, employers at those states' maximum tax rates routinely benefit from outright tax forgiveness. In those states, employers with large negative balances are never required to make tax payments on those balances, and their costs are shifted permanently to other employers.

Inactive Charges

Inactive charges result when an employer goes out of business and, therefore, stops paying payroll taxes. Benefits collected by former employees result in inactive charges, which also reduce the degree of experience rating in the system.

Changes in the State Taxable Wage Base

Some states change the level of their taxable wage bases relatively frequently.[10] The impact of such changes on the degree of experience rating is complex. The relationship between experience rating and the taxable wage base varies with the type of experience rating system that a state uses and the degree to which employers are taxed at state minimum and maximum tax rates. Individual employer tax rates would be expected

TABLE 6-4. Ineffectively Charged Benefits, by State, 1993

State	Ineffective Charges as Percent of Total Benefits	State	Ineffective Charges as Percent of Total Benefits
Montana	0.0	Oregon	18.4
Tennessee	0.5	Rhode Island	19.3
Louisiana	0.6	West Virginia	19.3
Delaware	0.9	Massachusetts	19.9
Florida	4.4	Colorado	20.3
Indiana	8.6	Kentucky	20.6
Arizona	9.4	New Hampshire	20.6
Utah	10.1	Texas	21.1
Washington	10.2	Vermont	21.5
Nebraska	10.3	South Carolina	21.6
Arkansas	10.6	Pennsylvania	22.7
Iowa	11.8	Ohio	23.5
New Mexico	12.7	North Dakota	25.0
Illinois	13.3	Maine	25.5
Minnesota	14.4	Idaho	26.4
Wisconsin	14.4	California	26.6
Wyoming	15.2	Nevada	28.2
Alabama	16.3	Hawaii	29.8
Georgia	16.3	South Dakota	30.5
Kansas	16.3	North Carolina	30.8
Michigan	16.4	New Jersey	31.7
Mississippi	16.6	New York	31.8
Virginia	16.8	Connecticut	37.3
Missouri	18.3	Oklahoma	39.4

NOTE: Data are not available for Alaska, the District of Columbia, Maryland, Puerto Rico, and the Virgin Islands.

SOURCE: U.S. Department of Labor, Unemployment Insurance Service.

to change automatically over time as the system adjusted to the new wage base.[11] Both the change in the average employer tax rate and the overall trend in individual employer tax rate changes depend on the type of experience rating system.[12]

It is by changing the *distribution* of employer tax rates across the tax schedule in a state, however, that a change in the taxable wage base most directly affects the degree of experience rating in a state. This distribution varies greatly across states.[13] Raising the taxable wage base *reduces* the degree of experience rating to the extent that it moves more employers down to the minimum tax rate. Raising the taxable wage base *increases* the degree of experience rating for employers who were at the maximum tax rate prior to the increase, but below the maximum rate after the increase. (The reason for this is that these employers then have to contribute a higher percentage toward costs attributed to them.) Without detailed information on the distribution of employers at the minimum and maximum tax rates on a state-by-state basis, therefore, it is difficult to determine in advance the overall extent to which an increase in the taxable wage base would raise or lower the overall degree of experience rating.

Benefit Charging for Multiple Employers

States differ as to how they charge benefits to employers' accounts when there are multiple employers. Only nine states charge the most recent or principal employer exclusively. This is a particularly effective mechanism for preserving the degree to which the funding of the system is experience-rated.[14]

EXPERIENCE RATING INDEX

The Experience Rating Index (ERI), published annually since 1988 by the U.S. Department of Labor, is the only available index of the overall degree of experience rating.[15] Although it has several disadvantages that hinder comparisons across states, the ERI (displayed in Table 6-5) does provide a method for making year-to-year comparisons within states and for the system as a whole.[16]

In 1993, the ERI ranged from a low of 36 percent in Hawaii to a high of 82 percent in Delaware. Between 1990 and 1993, among the states for

TABLE 6-5. Experience Rating Index, by State, 1988-1993

State	1988	1989	1990	1991	1992	1993
Alabama	71	78	74	56	49	64
Arizona	80	80	83	78	69	76
Arkansas	48	47	56	60	58	53
California	65	67	68	64	52	53
Colorado	45	53	60	65	64	62
Connecticut	62	64	58	47	42	49
Delaware	N.A.	51	71	70	N.A.	82
District of Columbia	47	56	72	72	62	N.A.
Florida	68	66	50	56	53	67
Georgia	61	65	62	65	52	58
Hawaii	47	56	66	63	32	36
Idaho	55	64	58	53	44	54
Illinois	83	86	85	80	79	76
Indiana	81	91	94	84	78	75
Iowa	78	77	67	70	74	67
Kansas	64	73	69	69	57	58
Kentucky	79	79	75	72	58	66
Louisiana	42	87	85	88	83	77
Maine	62	60	60	52	41	50
Maryland	N.A.	72	62	62	65	N.A.
Massachusetts	55	54	50	40	43	47
Michigan	80	67	72	70	63	73
Minnesota	67	66	69	62	58	64
Mississippi	40	54	53	42	51	53
Missouri	61	58	59	61	55	63
Montana	54	58	62	61	55	73
Nebraska	61	57	63	60	57	56
Nevada	66	67	68	63	41	59
New Hampshire	N.A.	N.A.	81	72	55	68
New Jersey	N.A.	78	75	70	63	51
New Mexico	61	59	63	63	62	62
New York	80	73	61	55	51	60
North Carolina	N.A.	N.A.	N.A.	50	44	42
North Dakota	62	65	57	64	60	56
Ohio	70	74	74	70	65	65
Oklahoma	50	64	60	48	31	37
Oregon	59	63	56	60	51	50
Pennsylvania	66	69	65	62	56	57
Rhode Island	75	69	68	58	55	64

(continued)

TABLE 6-5. (continued)

State	1988	1989	1990	1991	1992	1993
South Dakota	59	38	48	45	49	44
Tennessee	N.A.	69	66	68	71	73
Texas	53	58	55	52	51	49
Utah	61	70	70	69	66	61
Vermont	70	66	63	58	54	48
Virginia	65	68	70	61	51	66
Washington	60	63	63	61	57	48
West Virginia	83	51	56	58	56	62
Wisconsin	90	82	78	66	65	70
Wyoming	38	62	N.A.	55	63	60
U.S. Average	63	66	66	62	56	N.A.

NOTE: "N.A." indicates data are not available. The ERI is not applicable for Alaska and Puerto Rico. Alaska uses the payroll decline method; Puerto Rico had a flat tax until 1993.

SOURCE: U.S. Department of Labor, Unemployment Insurance Service.

which there are complete data, the ERI declined in 36 states and increased in 8 states. The most likely explanation for the overall decline is that the recession caused a higher percentage of employers to be at their state's maximum tax rate, which increased the amount of ineffective charges. The drop in experience rating, therefore, may be a cyclical phenomenon caused by states' experience-rated tax structures, rather than a more structural decrease.

EFFECTIVENESS OF EXPERIENCE RATING

As noted above, proponents of experience rating have argued that it has a number of advantages, including the following: (1) the encouragement of stable employment, (2) the attribution of the costs of unemployment insurance benefits to the employer responsible for the unemployment, and (3) the creation of an incentive for employers to participate more actively in policing the UI program. The existing evidence on the extent to which experience rating has actually been able to achieve each of these goals is summarized below.

Stabilization of Employment

Theoretically, labor turnover is expected to decrease as the degree of experience rating increases. Similarly, employers' willingness to use both temporary and permanent layoffs is expected to increase as experience rating is reduced. Empirically, however, the evidence is less clear.

Early attempts to gauge the employment effect of experience rating consisted primarily of interviews with employers. In interviews with employers in Wisconsin and Indiana, Myers (1945) and Andrews and Miller (1956) found that between 26 and 30 percent of employers reported that they based layoff decisions on their experienced-rated UI tax.

Studies during the past 20 years have used more rigorous quantitative techniques to estimate the relationship between experience rating and layoffs. The largest estimated impacts were reported by Feldstein (1978) and Topel (1984). Feldstein suggested that as much as 50 percent of all temporary layoffs in the United States under the existing system could be prevented through the use of perfect experience rating. Topel found that approximately 30 percent of unemployment among men could have been prevented through the use of perfect experience rating.

Halpin (1980) reports similar results, suggesting that a 1 percentage point increase in the maximum tax rate would decrease the temporary layoff unemployment rate by 10 percent. Most recently, Card and Levine (1992) conclude that a perfectly experience-rated system would reduce the unemployment rate by about 1 percentage point, both in the trough of a recession and during annual seasonal troughs.

Each of these studies was constrained significantly by data limitations that reduced the studies' ability to attribute layoff decisions to experience-rated tax rates.[17] Overall, however, all of the studies find that experience rating has an impact on employment stability, although it is impossible to estimate this impact with precision.[18]

Allocating Costs

The allocation of labor costs through experience rating is based on the perspective that unemployment is a cost of business that should be paid by employers. As noted above, however, states have a significant amount of freedom in deciding what percentage of their benefit costs will be experience-rated and what percentage will be socialized (that is, not

assigned strictly to individual employers based on the costs that they have generated, but subsidized within the UI system by other employers).[19] States have indeed relied heavily on subsidies from one group of employers to another and on socialized cost rates, such as pooled costs, to finance state UI systems.

The first well-known study of subsidization was conducted by Becker (1972) and was updated by Munts and Asher (1980). Both studies concluded that the largest subsidies go to seasonal employers, declining firms, and high-turnover industries, such as construction and apparel manufacturing.

The most recent study of cost allocation was done by the Office of the Inspector General (OIG) of the U.S. Department of Labor in 1985, examining the period from 1970 to 1983. The report (U.S. Department of Labor, OIG, 1985) concluded that the degree of experience rating had declined substantially during this period and that the UI system was shifting from one based on individual employer responsibility toward a socialized system.[20] The study reported, for example, that the construction and manufacturing industries accounted for about $3.40 in benefits paid for each dollar of tax contributions collected. In 1983, the overall experience rating of the system was approximately 50 percent. The conclusion that costs are becoming more socialized has been called into question by the Experience Rating Index, discussed above, which finds a greater degree of overall experience rating than was found in the OIG report.

Proponents of increasing the degree of experience rating have used these studies in arguing in favor of raising the maximum tax rate in order to reduce the degree of employer subsidization and socialization of costs in UI financing. They note that states with low maximum rates tend to underfinance their systems, leading to the triggering of higher tax schedules and surcharges. This, in turn, leads to a reduction in the degree of experience rating.

Opponents of this perspective, while not disputing the findings of the cost allocation studies, point to what they see as negative effects that would be associated with increasing the degree of experience rating in UI. These effects include the following: (1) extreme penalties for some employers who, in general, are not responsible for unemployment; (2) more interstate competition to attract employers by offering favorable tax rates; and (3) the enactment of more restrictive laws concerning the disqualifications for benefits. (See Chapters 7 and 8 for discussions of eligibility requirements.)

Employer Involvement

It is clear that the goal of increasing employer involvement through experience rating has been achieved. The extent to which this is a positive outcome, however, is disputed. While it is clear that experience rating leads employers to participate more actively in the system, no clear conclusions can be reached regarding either the effectiveness or desirability of their policing of the UI system.

In theory, experience rating clearly provides a financial incentive for employers to participate actively in policing UI eligibility. Many employers engage in activities that include the following: (1) scrutinizing all notices of claims filed by employees to ensure they have not been filed under disqualifying circumstances, (2) protesting claims that are believed to be unwarranted, (3) analyzing the annual statements of their account to determine any improper charges, and (4) participating in the appeals process when the employer finds grounds for protest. Some observers, however, criticize the degree and spirit with which some of these activities are carried out.

Several pieces of evidence suggest that experience rating is an important factor in influencing employers' involvement in the appeals process. For example, in Puerto Rico, which had a flat tax rate until 1993, there was an average of only one employer appeal per 1,000 initial claims from 1980 to 1990, 7 times lower than the U.S. average for this period. Similarly, in the state of Washington, which used a flat tax rate for 10 of the 12 years between 1972 and 1983,[21] there were three employer appeals per 1,000 initial claims during this period, also significantly lower than the corresponding U.S. average.

The 1985 OIG study (U.S. Department of Labor, OIG, 1985) also attempted to consider the degree of employer participation in the UI system. The report compared the difference in appeals made by employers at the maximum tax rate with those that had variable tax rates. For 1983, they found that employers at the maximum tax rate were about two times less likely to file a benefit appeal than variable-rated employers were.

NOTES

1. In addition, experience rating creates other incentives for employers—for example, to make use of contractors or employee leasing services in order to avoid the experience rating system itself. For more information on these issues, see Chapter 12.

2. The Federal Unemployment Tax Act stipulates simply that tax rates shall be assigned "on the basis of the employer's experience with respect to unemployment or other factors bearing a direct relation to unemployment risk." The few modifications to the implementation of experience rating include a 1954 federal amendment allowing states to reduce the minimum period allowed for rating unemployment experience to 1 year from 3 years, and small legislative increases in the maximum taxable wage base approximately every 10 years, to the current level of $7,000.

3. After 1984, the federal law effectively required that state tax rate ceilings be at least 5.4 percent in order to qualify employers for the full tax credit against federal taxes paid under FUTA.

4. In many states, the trigger mechanism used to move from one tax schedule to the next is based on the trust fund as a percentage of total state payrolls. Effectively, tax rates increase as this percentage decreases.

5. Michigan and Pennsylvania have elements of both the reserve ratio and the benefit ratio systems.

6. This method was originally adopted by states technically unable to match benefit costs to individual employers. As states have gained the capability of assigning individual employer benefit costs, many have moved to adopt either the reserve ratio or benefit ratio formula.

7. In 1948, however, seven states used this method (Blaustein 1993).

8. In benefit ratio states, tax rates are typically determined by benefit outlays over the preceding 3 years. Since employer trust fund balances do not enter into tax rate calculations, reductions in benefit payments will cause a reduction in taxes—even if the overall state trust fund balance is low. This may cause benefit ratio states to incur more ineffective charges than reserve ratio states, in which long-term experience is directly reflected in tax rates.

9. This occurs in Georgia, Idaho, Massachusetts, Pennsylvania, West Virginia, and Wisconsin.

10. In addition to periodic changes, 18 states index their taxable wage bases to increase automatically each year.

11. For example, a one-time increase in the taxable wage base would cause an increase in contributions paid into the system in the year following the increase, as employers paid their assigned tax rate on a higher level of taxable wages. After the first year, however, the states' systems would respond somewhat differently, depending on the experience rating formula that they use.

12. In *reserve ratio* states, an increase in the taxable wage base can have two effects on employers. For those with large positive reserve ratios, the increase tends to

decrease their reserve ratios, thereby bringing about an increase in their tax rates. For employers with small balances, it tends to decrease their tax rates, as their reserve ratios tend to increase. Overall, it is expected that a one-time increase in the taxable wage base would ultimately cause an increase in average employer tax rates in reserve ratio states. In *benefit ratio* and *benefit-wage ratio* states, an increase in the taxable wage base always reduces employers' benefit ratios. Consequently, employers' tax rates decline over time, with employers paying a lower tax on a higher taxable wage base.

13. In some states, only 5 percent of employers are taxed at the *minimum* tax rate, whereas in others, more than 40 percent of employers are at the minimum rate. Similarly, the percentage of employers at the *maximum* tax rate ranges from 1 to 20 percent in different states.

14. In addition, 37 states charge benefits in proportion to the worker's previous wages earned from each employer in the base period, and 8 states charge employers in the inverse chronological order of employment.

15. The index is calculated by subtracting the amount of noncharges, ineffective charges, and inactive employer charges from the total benefits paid in a 1-year period in order to determine the percentage of benefits that are actually charged to individual employers.

16. Due to the dynamic nature of the system, in which employers are continually paying rates reflecting past charges and in which there is significant variation in state laws regarding employer charging, it is difficult to quantify the exact degree of a state's experience rating.

17. All of the studies had to create proxies for the degree of experience rating rather than using the actual degree of experience rating for individual firms. Further, none of the studies had data on unemployed workers' benefit status.

18. In addition to the studies already mentioned, Brechling (1977) also compared layoff rates with UI state tax rates for 1962-1969. He found lower rates of labor turnover in states that applied higher penalty taxes to firms that had negative unemployment insurance account balances. As with the other studies, Brechling's analysis used a proxy for individual firms' experience rating.

19. The existence of noncharges, low maximum tax rates, and higher-than-average new employer rates all represent means through which attributable costs are intentionally socialized in the UI system.

20. The OIG study used UI data from the following states: California, Colorado, Florida, Indiana, Maryland, Missouri, New Jersey, New York, South Carolina, Texas, West Virginia, and Wisconsin.

21. During this period, Washington used an experience-rated tax for the rate years 1978 and 1979.

7 / Benefits: Monetary Eligibility

AN ANALYSIS AND EVALUATION of the benefits paid under Unemployment Insurance (UI) must consider two major elements:[1] (1) the conditions that determine whether or not an individual is *eligible* for UI benefits; and (2) the *adequacy, level, and duration* of the benefits for which eligible individuals qualify. This chapter and Chapter 8 address the first of these, eligibility for benefits. Chapter 9 then addresses adequacy issues, and Chapter 10 discusses variations in the level and duration of benefits.

Two broad categories of criteria—monetary and nonmonetary—determine whether or not an unemployed individual is eligible for UI benefits. The monetary eligibility conditions are intended to ensure that those who receive UI benefits had a substantial attachment to the labor force prior to their unemployment. The nonmonetary conditions are meant to ensure that UI recipients are available for and actively seeking work, and are either involuntarily unemployed (that is, they were laid off from their jobs) or voluntarily left their jobs for good cause.

Both the monetary and nonmonetary conditions are determined by the states, with only minor requirements imposed by the federal government.[2] As a result, there is considerable variation across states in these requirements. This chapter summarizes the monetary conditions under which an individual would be eligible for Unemployment Insurance benefits; Chapter 8 summarizes the nonmonetary eligibility conditions for benefits. Overall, the conclusions from the analysis of monetary eligibility across states are as follows:

- A *full-time, full-year* worker earning minimum wage or greater meets the monetary eligibility requirements in every state. For *full-year*, low-wage individuals who work *less than full-time*, there are significant variations across states in both eligibility and benefit amounts.

- There is little difference in eligibility between a *full-year* worker and a *part-year* worker who earn similar wages and work similar hours per week.

- The minimum earnings requirements often render individuals ineligible for benefits on the basis of their *wage rate*, rather than simply because of the number of hours or weeks worked. This can be seen when comparing individuals who work the same number of total hours but earn different wage rates; the lower-wage workers are eligible for benefits in fewer states. Thus, because of the structure of earnings eligibility requirements, low-wage, part-time workers must work more hours to qualify than do higher-wage workers.

- The minimum earnings requirements also render some individuals ineligible on the basis of their *distribution of wages*. For example, among individuals who work the same total number of hours per year at the same wage rate, more states provide benefits for individuals who work *full-time, part-year* than *part-time, full-year*.

All states require that a worker earn a specified amount of wages and/or work a certain period of time within a "base period" in order to qualify for benefits. A state's UI laws prescribe a number of interrelated factors, including the earnings and employment needed to qualify for benefits, the base period in which the earnings must occur, the computation of the weekly benefit amount, and the duration for which UI benefits will be paid. Because these factors are so closely linked, examining a single aspect of state law in isolation is often misleading. In order to avoid this problem, models were developed for the overall eligibility impact of each state's 1994 UI laws, including monetary eligibility requirements and UI weekly benefit and duration calculations.[3] The following sections briefly describe the structure of the earnings and employment qualification requirements

and then use a comparison across states to illustrate the implications of these requirements—namely, eligibility across states—for a variety of hypothetical workers.

DEFINITION OF THE BASE PERIOD

The base period is the relevant time period within which an individual's earnings and employment are measured in determining eligibility for UI and the amount and duration of UI benefits. In most states, the base period is defined as the *first* four of the most recently completed five calendar quarters, depending on the date of application for benefits. If, for example, an unemployed individual applies for UI on June 30 (the last day of the quarter), the relevant base period is the previous calendar year. If the same individual applied for benefits on July 1 (the first day of the quarter), however, the relevant base period is the last three quarters of the previous calendar year plus the first quarter of the current year.

Consequently, depending on the date of application for UI benefits, between 3 and 6 months of the unemployed individual's most recent earnings history is excluded by many states in determining whether an individual has met the minimum earnings requirement. In contrast, some states use the four most recently completed quarters, in which case the lag is less than 3 months.[4]

When the most recent quarter is excluded, it has little effect on individuals with high earnings and permanent, long-term attachment to the labor force. In some cases, however, the exclusion of an individual's most recent earnings could disqualify low-wage workers with substantial labor force attachment.[5] A few states allow for a "moveable base period" that is designed to make the base period more flexible so that more low-wage workers can qualify.[6]

Minimum Earnings and Employment Requirements

Almost all states require a minimum amount of earnings in the base period, ranging from a low of $130 in Hawaii to a high of $4,160 in Oklahoma. Twenty-seven states express the required base period amount as a function of the high-quarter wages (that is, the highest level of wages earned in any of the calendar quarters considered).[7] Base period wage requirements are expressed as a function of the calculated weekly benefit amount in 14

states.[8] States usually have additional qualifying requirements. For example, 33 states also require that a minimum amount of earnings be received in the individual's high-wage quarter. Forty-five states require that wages be earned in at least two of the four base period quarters,[9] and 5 states require that a minimum number of weeks be worked in the base period.

VARIATIONS IN MONETARY ELIGIBILITY

This section summarizes variations in UI eligibility across states, caused by differences in state UI laws and eligibility formulas. In addition, it discusses variations in eligibility across individuals with different employment and earnings histories. These variations are discussed below with regard to the number of states in which hypothetical individuals are eligible for benefits.

Variations Among Full-Time, Full-Year Workers

Table 7-1 shows the number of states in which workers with a variety of wage rates and work schedules during the base period would qualify for at least the state minimum level of UI benefits.[10,11] This table indicates that full-time, full-year workers meet the minimum eligibility requirements in all 52 states, despite their wage rate. Thus, variations in monetary eligibility affect only those individuals who work part-time, or part-year, or both.

Variations Among Full-Time and Part-Time Workers

Table 7-1 indicates that a worker earning the minimum wage ($4.25 per hour) and working half-time (20 hours per week), full-year would qualify for UI benefits in 43 states. A comparable half-time worker earning $8.00 per hour, however, would qualify for UI benefits in all states. This illustrates that the minimum *earnings* requirements disqualify individuals on the basis of their wage rate, rather than simply because of their labor force attachment (as evidenced by their work schedule in the base period).

In addition to differences in eligibility caused by different wage levels, in some states, *part-time* workers are ineligible monetarily because of their total hours of work. For example, the minimum wage worker described above who works half-time, full-year qualifies in only 43 states, whereas

TABLE 7-1. Number of States in Which Workers with Various Work Schedules and Rates of Pay Qualify for Minimum Benefits

	Hourly Rate of Pay						
Work Schedule	$4.25	$6	$8	$10	$14	$16	$18
Half-time, 26 wks	37	47	49	50	50	50	50
Half-time, 52 wks	43	49	52	52	52	52	52
Full-time, 26 wks	51	51	51	52	52	52	52
Full-time, 52 wks	52	52	52	52	52	52	52

NOTES: Table assumes a single person with no dependents. For those individuals who worked 26 weeks, calculations assume they worked 13 weeks in each of the last two qualifying quarters.

A maximum of 52 states are represented in the table. The District of Columbia, Puerto Rico, and the Virgin Islands are included; Michigan is not.

SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a)

a minimum wage worker working full-time, full-year would qualify for UI benefits in all states. Typically, part-time workers are ineligible because they do not meet the earnings requirement or the work threshold. These differences in eligibility between part-time and full-time workers disappear as wage rates increase. Because of the structure of earnings eligibility requirements, low-wage, part-time workers must work more hours to qualify than higher-wage workers.

Table 7-2 shows the results of tabulations similar to those discussed above. It displays the number of hours per week that four hypothetical workers must work to qualify for minimum benefits, and displays the average minimum benefit level. For example, a full-year worker earning minimum wage and working at least 10 hours per week will qualify for benefits in 17 states. By contrast, a full-year worker earning $10 per hour and working at least 10 hours per week will qualify for benefits in 47 states.

Simulations of UI benefit levels across states illustrate that minimum standards and benefit levels vary considerably among the states. Figure 7-1 provides more detail on the variations in states' treatment of minimum wage workers. It shows the number of hours per week that a full-year, minimum wage worker would need to work in order to qualify for the minimum UI benefit in each state. In addition, the graph shows the weekly benefit amount for which the individual would qualify. Thus, for *exactly*

TABLE 7-2. Hourly Work Requirement for Minimum Weekly Benefits, by Number of States and Benefit Amounts

Work Requirement (hrs/wk)	Prototypical Workers[a] Who Qualify for Benefits							
	$4.25/hour, 52 weeks/year		$4.25/hour, 26 weeks/year		$10.00/hour, 52 weeks/year		$10.00/hour, 26 weeks/year	
	No. of States	Weekly Benefit Amount	No. of States[b]	Weekly Benefit Amount	No. of States	Weekly Benefit Amount	No. of States	Weekly Benefit Amount
25+	3	$59	6	$46	—	—	2	$69
21-25	6	42	8	37	—	—	—	—
16-20	12	36	14	37	—	—	1	16
11-15	14	32	13	32	5	$60	5	47
6-10	10	33	8	27	26	35	31	35
1-5	7	25	2	6	21	29	13	25

NOTES: A dash (—) indicates no additional states qualify workers for the given hour amounts. Table assumes a single person with no dependents. For those individuals who worked 26 weeks, it was assumed they worked 13 weeks in the last two qualifying quarters.

Michigan is not included in this table.

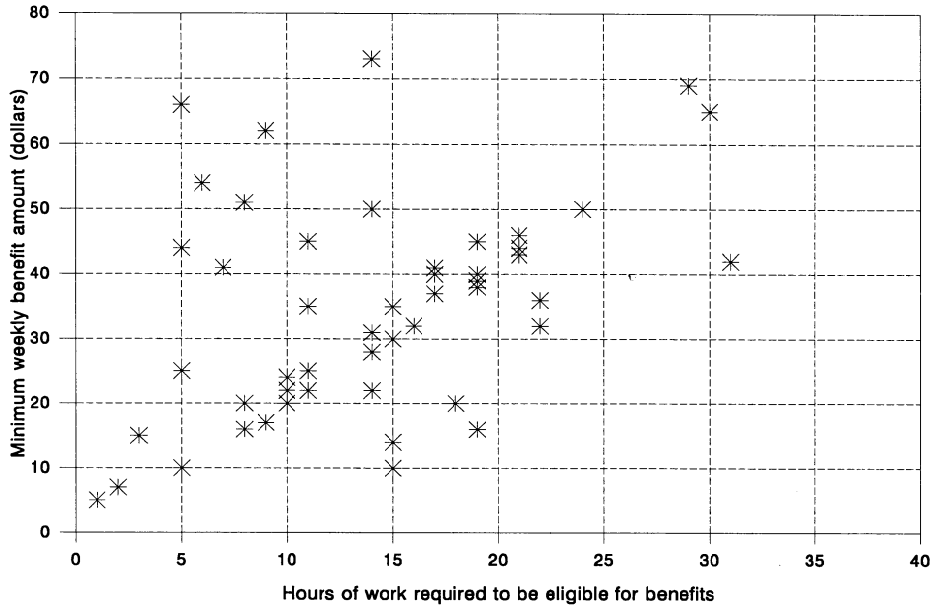
In 29 states, workers earning a wage of $4.25 per hour needed to work the same number of hours to qualify for minimum benefits, despite the portion of the year they were employed. In 31 states, workers earning a wage of $10.00 per hour needed to work the same number of hours to qualify for minimum benefits, despite the portion of the year they were employed.

SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a).

[a] Prototypical workers defined by hourly wage rate and portion of year spent working.

[b] The individual is ineligible in Virginia.

FIGURE 7-1. Weekly Benefit Amounts and Hourly Work Requirements for Minimum Wage, Full-year Worker, by State, 1994



NOTE: Estimates are for a single worker with no dependents, earning $4.25/hour, and working 52 weeks in the base period in 1994.
SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a).

the same worker, there is significant variation across states in both eligibility requirements and benefit amounts.

Variations Among Full-Year and Part-Year Workers

There is little difference in eligibility between a full-year worker and a part-year worker (who earn the same wage and work the same number of hours per week). For example, Table 7-1 indicates that a minimum wage worker who works full-time, full-year is eligible for benefits in 52 states, whereas a minimum wage worker who works full-time, part-year is eligible for benefits in 51 states.

Variations Based on Distribution of Hours

The eligibility of individuals who work the *same total number of hours per year* (for example, 1,040 hours either half-time for 52 weeks or full-time for 26 weeks) vary across states, based on the distribution of hours worked. More states provide benefits when a low-wage individual works full-time for a shorter portion of the year. Thus, an individual whose work hours are concentrated in a shorter number of weeks (in particular, two quarters of the base period) is eligible for benefits in more states than is a worker with the same total number of hours distributed over the entire year. For example, Table 7-1 indicates that a half-time, full-year minimum wage worker would meet the minimum eligibility requirements in 43 states but would fail to qualify in 9 states, whereas a full-time, part-year worker would meet the minimum eligibility requirements in all but 1 state.

NOTES

1. The level of receipt among eligible individuals is a third issue that might be considered. There is currently little available information on the subject. See Advisory Council on Unemployment Compensation (1994) for a discussion of issues generally related to recipiency.

2. Federal law prohibits a state from denying benefits to individuals who are otherwise eligible if they refuse to accept a job (1) when the job is vacant due to a strike, lockout, or other labor dispute; (2) when wages, hours, or other conditions are substantially less favorable for the individual than those available for similar work in the area; and (3) when a condition of employment is that the individual would be required to join a company union or to resign from (or not be permitted to join) any labor organization. In addition, benefits cannot be denied solely on the grounds of pregnancy.

Federal law requires that a state deny benefits under certain conditions, discussed in the subsection on "Treatment of Special Groups," in Chapter 8.

3. Unless otherwise noted, the source for all statistics and figures cited in Chapters 7 and 10 and parts of Chapter 9 is a series of calculations performed by the ACUC staff on the basis of state laws related to eligibility, benefit levels, and benefit durations. With few exceptions, the source for information regarding state statutes was U.S. Department of Labor (1994a).

Calculations were made systematically for hypothetical individuals with different characteristics, including wage rates, hours of work, weeks of work, state of work, and number of dependents. For a small number of states, the minimum benefit amounts reported are estimates based on equations derived from state benefit tables. Because of the unique method of calculating benefits in Michigan, this state is excluded from much of the discussion.

Only state laws were considered in making the calculations; hence, case law and nonlegislative regulations were not considered in the calculations. Such factors might possibly have affected some state benefit calculations.

Unless otherwise noted, all benefit averages reported are averages for those states in which a given hypothetical individual is eligible for benefits. All states are weighted equally in calculating the averages. All benefit amounts are pre-tax benefits, and all replacement rates relate pre-tax benefits to pre-tax wages.

Full-year refers to a worker with 52 weeks of work in a base period; *half-year* refers to a worker with work in 26 weeks (concentrated in only two of the four quarters) of a base period; *full-time* refers to a worker who works 40 hours per week; and *half-time* refers to a worker who works 20 hours per week. *Minimum wage* workers earn $4.25 per hour of work.

4. Nebraska uses the last four quarters in all cases. Arizona, Maine, Nevada, and Tennessee use the last four quarters in special circumstances. Michigan and New York use the preceding 52 weeks and have no lag period, whereas California uses the four quarters ending 4 to 7 months before the base year. New Hampshire uses the calendar year. U.S. Department of Labor (1994a).

5. In some cases, an individual could be monetarily ineligible for UI benefits at the time of initial application, but then become monetarily eligible at a later application date during the same spell of unemployment (because a new quarter of earnings is included in his or her base period).

6. With a moveable base period, a claimant who does not meet the minimum earnings requirement using the first four of the past five completed quarters can use the earnings during the four most recently completed quarters instead (that is, a substitution of the fifth quarter for the first quarter). If the minimum earnings and employment requirements are met under *either* of these calculations, then a worker is determined to have satisfied the requirements.

States with a "moveable" base period include the following: Maine (until December 1994), Massachusetts, Ohio, Rhode Island, Vermont, and Washington. New York uses a 104-week period if the individual does not meet the criteria in the last 52-week period. U.S. Department of Labor (1994a).

7. For example, an individual's base period wages in the District of Columbia must be 1.5 times the high-quarter wages in order for that person to be eligible for benefits. Since the high-quarter wages must be at least $1,300, the base period wages must be $1,950.

8. A flat amount is used in six states; the remaining states use a function of the average weekly wage in that state.

9. Alternatively, some states require a certain level of earnings outside the high quarter, in at least two quarters, or in the last two (chronological) quarters.

10. UI benefit levels and replacement rates for different workers are discussed in Chapter 10.

11. Michigan is excluded from the tables and discussion; the District of Columbia, Puerto Rico, and the Virgin Islands are included.

8 / Benefits: Nonmonetary Eligibility

IN ADDITION TO THE MONETARY ELIGIBILITY conditions addressed in Chapter 7, individuals must also meet a number of nonmonetary conditions to be eligible for UI benefits. In general, these require that (1) the individual demonstrate an ability and willingness to seek and accept suitable employment, and (2) there are no disqualifications related to the individual's most recent job separation. The purpose of these restrictions is to limit payment to those workers who are unemployed primarily as a result of economic causes (U.S. Department of Labor 1994a).

Because nonmonetary eligibility requirements for receiving Unemployment Insurance are determined by the states, they often vary significantly. Determining the treatment of a given individual even within a particular state is difficult, however, because available sources often provide conflicting information on state policies. Often, state unemployment compensation statutes do not include specific eligibility guidelines for many of the situations faced by UI claimants. Interpretations of eligibility conditions may appear only in state rules and regulations or in administrative or judicial case law.

The Interstate Conference of Employment Security Agencies (ICESA) recently conducted a survey of the states, which provides much more thorough, current information than was previously available.[1] UI directors in each state were asked to respond to the survey based on their *expected agency result* (that is, the directives given to claims examiners on how to make nonmonetary eligibility decisions). The survey focused on a number of specific nonmonetary determination situations, including the following:

part-time work, restriction of work hours, classification of temporary workers, student status, mental or physical conditions that limit work, and domestic obligations.

This chapter focuses primarily on nonmonetary eligibility conditions (including availability and work search requirements, and factors causing disqualification) across states, including a summary of the information available from state statutes and from the ICESA survey. The chapter also presents the conclusions from a separate survey of claims examiners in five states; this survey was designed to determine whether there are significant variations in the nonmonetary determinations *within* states.[2] In addition, the results from the ICESA survey are compared with a legal review of state positions on one eligibility issue. The chapter concludes with a summary of the cross-cutting issues suggested by the nonmonetary survey results.

Overall, the conclusions from the analysis of nonmonetary eligibility are as follows:

- Individuals cannot receive benefits (that is, they are disqualified) for some period of time if they voluntarily separate from their employer without good cause, are discharged from employment due to misconduct, refuse suitable work without good cause, are unemployed as a result of a labor dispute, or misrepresent themselves in order to obtain or increase UI benefits.

- While the length of disqualification imposed varies across states, workers are often disqualified for their entire unemployment spell. In addition, disqualification can result in a reduction in UI benefit payments and/or a cancellation of benefit rights.

- The severity of disqualifications and reductions of benefits has increased over time.

- A lack of concrete information about nonmonetary eligibility conditions may work to the detriment of claimants and employers.

- Some states' nonmonetary eligibility conditions appear to be inconsistent with either the spirit or the letter of the Family and

Medical Leave Act of 1993 and the Americans with Disabilities Act of 1990.

- In at least 13 states, individuals are ineligible for UI benefits when they are unable to work because of a change in their employment situation (for example, a change in scheduled work hours).

- The restrictions in nonmonetary eligibility for temporary-help workers could make it difficult for them to seek and find permanent work.

AVAILABILITY AND WORK SEARCH REQUIREMENTS

A claimant must be able to work and must be available for suitable work in order to be *eligible* for UI benefits. All state laws require registration for work at a public employment office as evidence of the ability to work (U.S. Department of Labor 1994a). In addition, claimants must be looking for work and submit evidence of their job searches in accordance with requirements specified in the state law. This is a continuing eligibility requirement. If individuals are ineligible for benefits *solely* because they are deemed unable or unavailable for work, they may receive benefits as soon as that condition changes.[3]

In practice, determination of nonavailability is often made whenever (1) an individual places substantial restrictions on the conditions of otherwise suitable work that he or she is willing to accept, or (2) an individual refuses a referral of "suitable" work made by the Employment Service or a job offer made by an employer. The individual may, however, be determined to be ineligible for benefits because of a failure to meet other qualifying provisions, including refusing suitable work without good cause. In 9 states this means that UI claimants must be able and available for work in their usual occupation or in an occupation that is consistent with their prior training or experience. In 12 states, UI claimants must be able and available for "suitable" work, which is defined differently in each state. The remaining 32 states simply require that UI claimants be able and available for work.

A number of related issues, such as whether an individual must be seeking part-time or full-time work and whether an individual must be

available for all possible work shifts (such as between midnight and 6:00 A.M., or on weekends), are handled very differently across states.

A compilation of state statutes indicates that 3 states require that a claimant be available for full-time work (U.S. Department of Labor 1994a).[4] The ICESA survey addressed this issue specifically, asking whether individuals must be seeking full-time work and whether an individual must be available for all possible work shifts. The survey results indicate that, in general, individuals are ineligible for benefits in 39 states if they are seeking *only part-time work*.[5] In 13 states, the eligibility conditions vary significantly based on an individual's circumstances, and in only 1 state is an individual eligible for benefits under most conditions.

In certain limited circumstances, some states report that individuals seeking part-time work are eligible for benefits. For example, individuals with a history of part-time work are eligible in 14 states, students are eligible in 9 states, and individuals who are under physician's advice to work part-time either due to a physical or mental condition are eligible in 9 states.[6] States, however, are extremely unlikely to consider individuals eligible for benefits when they seek part-time work due to compelling personal circumstances (3 states), domestic circumstances (2 states), or personal preference (no states). (See Table 8-1.)

When individuals *restrict their available hours* (that is, exclude specific shifts, hours, or days) but remain available for the hours that are normally worked in their occupation in the locality, the ICESA survey results indicate that most states consider them eligible (42 states). In the absence of this condition, however, states are unlikely to consider individuals eligible, despite the presence of other potentially extenuating circumstances. (See Table 8-1.)

FACTORS CAUSING DISQUALIFICATION

States *disqualify* individuals from receiving benefits for a number of reasons related to job separation and other issues, including the following: (1) voluntary separation from work without "good cause," (2) discharge from employment due to misconduct connected with the job, (3) refusal of suitable employment without "good cause," (4) unemployment as a result of a labor dispute, or (5) fraudulent misrepresentation to obtain or increase UI benefits. This section describes the disqualification penalties and the major factors causing disqualification.

TABLE 8-1. Categorizing Nonmonetary Eligibility Status Under Various Conditions, by Number of States, 1994
ISSUE: "Able and Available for Work"

Individual Situation:	Eligible[a] (no. of states)	Varies[a] (no. of states)	Ineligible[a] (no. of states)
Individual is seeking part-time work:			
Due to personal preference.	0	6	47
Due to compelling personal circumstances.	3	8	42
Due to domestic circumstances (e.g., care giving).	2	7	44
On physician's advice, due to physical, mental, or medical condition.	9	9	35
And has a prior part-time work history.	14	9	30
And has student status.	9	9	35
Aggregated response (based on all eight categories).	1	13	39
Individual is restricting hours available (excluding specific shifts, hours, or days) in seeking work:			
That satisfy those normally worked in occupation in locality.	42	6	5
Due to personal preference.	3	8	43
Due to compelling personal circumstances.	8	18	27
Due to domestic circumstances (e.g., care giving).	7	16	30
Due to physical, mental, or medical condition.	12	22	19
Due to transportation limitations.	6	14	33
And has student status.	4	16	33

NOTE: Surveys were received from all 50 states, as well as the District of Columbia, Puerto Rico, and the Virgin Islands.

SOURCE: This table shows the results from a survey conducted by the Interstate Conference of Employment Security Agencies (ICESA). (See note 1 in this chapter for information about the survey.) The survey is meant to reflect the expected Unemployment Insurance agency result, assuming that nonmonetary eligibility decisions are consistent with the applicable state policies.

[a] The response categories are grouped as follows: "always eligible" and "usually eligible" are displayed as eligible, "often varies" is displayed as varies, and "rarely eligible" and "never eligible" are displayed as ineligible.

Disqualification Penalties

Disqualifications may result in a postponement of benefits either for a specified period of time or for the duration of the spell of unemployment. All state laws specify some length of time for each type of disqualification. When states set the disqualification for less than the duration of the unemployment spell, it is based on the view that the worker's continued unemployment after a specified period of time is more a result of general labor market conditions than of the individual's disqualifying act. In some states, the number of weeks of disqualification varies in relation to the seriousness of the disqualifying action.

When a disqualification results in the denial of benefits for the duration of the unemployment spell, the individual usually must work for a given amount of time before requalifying for UI benefits. The amount of time that an individual must work varies significantly by state and by the reason for disqualification. For example, an individual in Kansas who is disqualified from receiving benefits for the duration of an unemployment spell for leaving voluntarily without good cause must then earn 3 times the weekly benefit amount (that would have been collected by the individual) before requalifying, whereas a similar individual in Idaho must earn 16 times the weekly benefit amount before requalifying.

In addition to being disqualified from receiving benefits for a certain period of time, an individual may also receive a reduction in UI benefit payments when the disqualification period is over and/or have benefit rights cancelled. A cancellation of benefit rights, which may occur for incidences of "gross misconduct" or fraud, erases all of an individual's recent employment history for purposes of current and future benefit determination.

The actual severity of any given penalty to an individual, however, ultimately depends on the individual's duration of unemployment. For example, disqualification for the duration of unemployment is a small penalty for an individual who becomes reemployed in a few weeks, but it is much more severe for someone who is unemployed for many months.

Table 8-2 shows the severity of the disqualifications across states in 1994 for four major UI eligibility violations—voluntary leaving without good cause; discharge for deliberate misconduct connected with work (for example, violation of company rules, insubordination, refusal to perform assigned work, and absence from work); discharge for gross misconduct connected with work (such as arson, larceny, or forgery); and refusal of suitable work without good cause.

TABLE 8-2. Duration (in weeks) of Various UI Disqualifications, by State, 1994

State	Voluntary Leaving	Discharge for Misconduct	Additional Penalty for Discharge for Gross Misconduct	Refusal of Suitable Work
Alabama	Duration*	3-7*	Duration+	1-10
Alaska	5*	5*	—	5*
Arizona	Duration	Duration	—	Duration
Arkansas	Duration	7	Duration	7
California	Duration	Duration	—	1-9
Colorado	10*	10*	26*	20*
Connecticut	Duration	Duration	—	Duration
Delaware	Duration	Duration	—	Duration
District of Columbia	Duration	Duration	—	Duration
Florida	Duration	Duration	Duration	Duration*
Georgia	Duration	Duration*	Duration	Duration
Hawaii	Duration	Duration	—	Duration
Idaho	Duration	Duration	—	Duration
Illinois	Duration	Duration	+	Duration
Indiana	Duration*	Duration*	+	Duration*
Iowa	Duration	Duration	+	Duration
Kansas	Duration	Duration	Duration+	Duration
Kentucky	Duration	Duration	Duration	Duration
Louisiana	Duration*	Duration*	Duration+	Duration

(continued)

TABLE 8-2. (continued)

State	Voluntary Leaving	Discharge for Misconduct	Additional Penalty for Discharge for Gross Misconduct	Refusal of Suitable Work
Maine	Duration	Duration	Duration	Duration
Maryland	Varies	5-10	Duration	5-10
Massachusetts	Duration	Duration	—	7*
Michigan	Duration	Duration	Duration*	6*
Minnesota	Duration	Duration	Duration+	Duration
Mississippi	Duration	Duration	—	1-12
Missouri	Duration	4-16	4-16	Duration
Montana	Duration	Duration	52*	Duration*
Nebraska	Varies*	7-10*	+	7-10*
Nevada	Duration	Duration	+	Duration
New Hampshire	Duration	Duration	4-26+	Duration
New Jersey	Duration	5	Duration+	3
New Mexico	Duration	Duration	—	Duration*
New York	Duration	Duration	52	Duration
North Carolina	Varies*	Varies	—	Varies
North Dakota	Duration	Duration	52	Duration
Ohio	Duration	Duration	+	Duration
Oklahoma	Duration	Duration	—	Duration
Oregon	Duration*	Duration*	+	Duration*
Pennsylvania	Duration	Duration	—	Duration

Rhode Island	Duration	Duration	—	Duration
South Carolina	Duration	5-26*	5-26*	Duration
South Dakota	Duration	Duration	—	Duration
Tennessee	Duration	Duration	—	Duration
Texas	Duration	Duration	—	Duration
Utah	Duration	Duration	51	Duration
Vermont	Duration	6-12	Duration	Duration
Virgin Islands	Duration	Duration	—	Duration
Virginia	Duration	Duration	—	Duration
Washington	Duration	Duration	+	Duration
West Virginia	Duration	6*	Duration	4*
Wisconsin	Duration	Duration*	—	Duration
Wyoming	Duration	Duration*	—	Duration

NOTES: An asterisk (*) indicates that, in addition to the duration of the disqualification noted in the table, a state *reduces* the benefit amount a claimant receives at the end of the disqualification period. A plus (+) indicates that the individual's earned credits are canceled. A dash (—) indicates that there are no additional penalties for gross misconduct.

SOURCE: U.S. Department of Labor (1994a).

Voluntarily Leaving Without Good Cause

As shown in Table 8-2, all but five states currently disqualify an individual for the duration of unemployment for voluntarily leaving a job without good cause.[7] Eight states reduce an individual's benefits (as indicated by an asterisk in Table 8-2) after he or she requalifies for benefits.

Over time, state laws have become more restrictive in their definition of good cause for voluntary leaving, focusing more exclusively on reasons attributable to employment and considering reasons related to the worker's personal circumstances less frequently (Blaustein 1993). In addition, states have increased their use of disqualifications for the *duration of unemployment.* Table 8-3 illustrates how the severity of the penalty for these disqualifications has increased.[8]

Table 8-4 displays the reasons that are explicitly considered good cause for voluntary leaving in state law. Thirty-eight states do not allow personal reasons as good cause for voluntary leaving. Table 8-5 presents the ICESA survey results regarding good cause for leaving a job. The results indicate that when individuals leave a firm due to *new employment circumstances,* such as a change in work hours, they are eligible in 15 states, and potentially eligible (that is, eligibility varies based on the circumstances) in another 25 states.[9]

In only 7 states are there explicit statutes that allow individuals who have left their jobs due to sexual or other discriminatory harassment to be eligible for benefits. According to the ICESA survey, however, individuals are eligible for UI benefits in 44 states.

Some state statutes explicitly consider reasons related to marital obligations *not* to be good cause for voluntary termination.[10] In most of these states, individuals who voluntarily leave work due to marital obligations are disqualified not only from receiving benefits for the duration of their unemployment, but also until they have had earnings and employment in another job. The ICESA survey results, however, indicate that a much larger number of states consider reasons related to marital obligations *not* to be good cause for voluntary separation than indicated by the state statutes.[11]

Finally, the laws in 28 states render individuals ineligible for benefits when they leave work due to an illness. The ICESA survey indicated that states are likely to render ineligible those who are pregnant (ineligible in 38 states) or who have an illness or injury (ineligible in 39 states), unless

TABLE 8-3. Duration of Penalty Imposed for Various UI Disqualifications, Over Time, by Number of States

Reason for Disqualification and Year	No. of States That Postpone Benefits for:[a]		No. of States That Reduce or Cancel Benefits
	Fixed or Variable Number of Weeks	Duration of Unemployment	
Voluntary Leaving			
1948	41	11	16
1971	35	28	19
1978	17	42	11
1994	5	51	8
Misconduct Discharge[b]			
1948	46	6	16
1971	41	20	18
1978	31	30	16
1994	12	42	12
Suitable Work Refusal			
1948	40	12	17
1971	35	23	16
1978	32	26	14
1994	13	41	11

SOURCES: Blaustein (1993, 284) and U.S. Department of Labor (1994a).

[a] Some states are counted as having both a denial period of a fixed or variable number of weeks and a durational disqualification for a given reason category. In these instances, the severity of the penalty imposed is based on the individual circumstance.

[b] Count excludes disqualification for gross misconduct.

they left employment on the advice of a physician (ineligible in 3 states for both circumstances).

Misconduct and Gross Misconduct

Misconduct is another category of disqualification related to job separation (see Table 8-2 for details). When an employee is discharged due to misconduct, states deny benefits for part or the entire duration of the current unemployment spell, and some states further reduce the individual's benefits (as indicated by an asterisk in Table 8-2). About half of the states also define "gross misconduct" and enforce stricter benefit restrictions in these cases. The restrictions include denying the benefits for longer

TABLE 8-4. Good Cause for Voluntary Leaving, According to State Laws, by State, 1994

State	Restricted to Work/Employer (not Personal)	Sexual or Unwelcome Harassment	To Accept Other Work[a]	Claimant's Illness
Alabama	X	—	X	X
Alaska	—	—	—	—
Arizona	X	—	—	—
Arkansas	X	—	—	X
California	—	X	—	—
Colorado	X	—	—	X
Connecticut	X	—	X	X
Delaware	X	—	—	X
District of Columbia	X	—	—	—
Florida	X	—	X	X
Georgia	X	—	—	—
Hawaii	—	—	—	—
Idaho	X	—	—	—
Illinois	X	X	X	X
Indiana	X	—	X	X
Iowa	X	—	—	X
Kansas	X	X	—	X
Kentucky	X	—	—	—
Louisiana	X	—	—	—
Maine	X	—	X	X
Maryland	X	—	—	X
Massachusetts	X	X	X	X
Michigan	X	—	X	—
Minnesota	X	X	X	X
Mississippi	X	—	—	—
Missouri	X	—	X	—
Montana	X	—	—	—
Nebraska	—	—	—	—
Nevada	—	—	—	—
New Hampshire	X	—	—	X
New Jersey	X	—	—	—
New Mexico	X	—	—	—
New York	—	—	—	—
North Carolina	X	—	—	X
North Dakota	X	—	X	X
Ohio	—	—	X	—
Oklahoma	X	—	—	—
Oregon	—	—	—	—
Pennsylvania	—	—	—	—

(continued)

TABLE 8-4. (continued)

State	Restricted to Work/Employer (not Personal)	Sexual or Unwelcome Harassment	To Accept Other Work[a]	Claimant's Illness
Puerto Rico	—	—	—	—
Rhode Island	—	X	—	—
South Carolina	—	—	—	—
South Dakota	X	—	X	X
Tennessee	X	—	—	X
Texas	X	—	X	X
Utah	—	—	—	—
Vermont	X	—	—	X
Virgin Islands	—	—	—	—
Virginia	—	—	—	—
Washington	X	—	X	X
West Virginia	X	—	X	X
Wisconsin	X	X	X	X
Wyoming	X	—	—	X

SOURCE: U.S. Department of Labor (1994a).

[a] Type of job varies by state but might include leaving in good faith to accept full-time work with another employer or accepting another job while on layoff.

periods of time, as well as cancelling the individual's earnings history for purposes of determining benefits (indicated by a plus sign in Table 8-2).

According to the ICESA survey results, in most states, individuals who *willfully* violate an *employer rule* are ineligible for benefits. In most states, however, when individuals *inadvertently* violate an *employer rule*, they are more likely to be eligible for benefits. In both instances, individuals are slightly more likely to be eligible when the act results in no harm to the employer or other employees (see Table 8-6). Individuals are least likely to be eligible when they test positive for drug use or are repeatedly absent from work.

Refusal of Suitable Work Without Good Cause

Table 8-2 indicates how states penalize claimants who refuse to accept "suitable" work. The definition of suitable work confronts complex issues (discussed below), in terms of the number of hours and exact type of work for which a UI claimant must be available. In order to protect workers from unreasonable job demands, states define suitability on issues of health,

TABLE 8-5. Categorizing Nonmonetary Eligibility Status Under Various Conditions, by Number of States, 1994
ISSUE: "Voluntary Leaving with Good Cause"

Individual Voluntarily Left Job:	Eligible[a] (no. of states)	Varies[a] (no. of states)	Ineligible[a] (no. of states)
To move to marry.	5	1	47
To move with spouse to another locality.	9	6	38
To perform other marital or domestic obligations (e.g., illness in family).	8	13	32
Due to new *personal* circumstances.	8	7	38
Due to new *employment* circumstances.	15	25	13
Due to sexual or other discriminatory harassment.	44	9	0
Due to domestic violence.	13	9	31
In good faith to accept another job.	22	8	23
Due to illness or injury without physician's advice.	1	17	35
Due to illness or injury with physician's advice.	39	11	3
Due to pregnancy without physician's advice.	2	17	34
Due to pregnancy with physician's advice.	40	10	3
After the completion of assignment with temporary agency.	5	28	20

NOTE: Surveys were received from all 50 states, as well as the District of Columbia, Puerto Rico, and the Virgin Islands.

SOURCE: This table shows the results from a survey conducted by the Interstate Conference of Employment Security Agencies (ICESA). (See note 1 in this chapter.) The survey is meant to reflect the expected Unemployment Insurance agency result, assuming that nonmonetary eligibility decisions are consistent with the applicable state policies.

[a] The response categories are grouped as follows: "always eligible" and "usually eligible" are displayed as eligible, "often varies" is displayed as varies, and "rarely eligible" and "never eligible" are displayed as ineligible.

TABLE 8-6. Categorizing Nonmonetary Eligibility Status Under Various Conditions, by Number of States, 1994
ISSUE: "Misconduct Violations"

Individual Situation:	Eligible[a] (no. of states)	Varies[a] (no. of states)	Ineligible[a] (no. of states)
Individual *willfully* violated employer rule and employer/other employees were *harmed.*	0	1	52
Individual *willfully* violated employer rule and employer/other employees were *not harmed.*	4	7	42
Individual *inadvertently* violated employer rule and employer/other employees were *harmed.*	19	23	11
Individual *inadvertently* violated employer rule and employer/other employees were *not harmed.*	30	15	8
Individual did not *willfully* intend to harm employer/other employees.	31	19	3
Individual could not reasonably foresee the harm the actions would create.	15	26	12
Individual *inadvertently* commits act that results in large monetary loss to employer.	21	27	5
Individual was repeatedly absent for valid personal reason.	17	25	11
Individual tested positive for drugs but did not show any on-the-job possession or impairment.	6	28	19

NOTE: Surveys were received from all 50 states, as well as the District of Columbia, Puerto Rico, and the Virgin Islands.

SOURCE: This table shows the results from a survey conducted by the Interstate Conference of Employment Security Agencies (ICESA). (See note 1 in this chapter.) The survey is meant to reflect the expected Unemployment Insurance agency result, assuming that nonmonetary eligibility decisions are consistent with the applicable state policies.

[a] The response categories are grouped as follows: "always eligible" and "usually eligible" are displayed as eligible, "often varies" is displayed as varies, and "rarely eligible" and "never eligible" are displayed as ineligible.

morality, safety, and labor standards. In defining suitability, some states also include standards regarding travel distance to work,[12] relationship of job to previous experience and skills, and length of unemployment.[13]

According to the ICESA survey, in most states, individuals are ineligible for benefits if they refused work without "good cause" (see Table 8-7). The definition of good cause, however, varies significantly by state and is typically not an absolute standard; rather, it is considered on a case-by-case basis.[14] In many states, individuals are eligible if the job offer is not in their previous occupation, pays significantly less than prior employment, is for temporary or commission work and they have no prior history in this type of work, or is refused due to a physical or mental condition. In most states, however, individuals are ineligible if the job offer is for full-time work and they are seeking part-time work, is refused due to domestic circumstances, or is for temporary or commission work and they have a prior history of this type of work.

Unemployment Related to a Labor Dispute

Unemployment resulting from a labor dispute is excluded from UI coverage in order to allow the UI system to maintain a neutral position with regard to the dispute and also to avoid potentially significant drains to the unemployment fund.[15] As a result, the disqualification imposed by states is always a postponement of benefits and never results in a reduction or cancellation of benefit rights.

At the inception of the UI program, the majority of states adopted a "stoppage of work" disqualification, under which benefits are withheld as long as work was stopped due to a continued labor dispute.[16] The other states adopted an "active progress" statute, under which benefits were withheld for workers actively involved in an ongoing labor dispute, regardless of any interruption in production. In addition, most states initially disqualified workers locked out by their employers. Under these provisions, workers were disqualified as long as the prohibited status continued; as soon as the condition changed, individuals were able to receive benefits.

Over time, states have shifted from the stoppage-of-work disqualification for labor disputes. In addition, some states have moved away from the distinction between stoppage of work and active progress, and have moved

TABLE 8-7. Categorizing Nonmonetary Eligibility Status Under Various Conditions, by Number of States, 1994
ISSUE: "Refusal of Suitable Work"

Individual refused:	Eligible[a] (no. of states)	Varies[a] (no. of states)	Ineligible[a] (no. of states)
A job with *good cause*.	42	7	0
An offer of full-time work because of seeking part-time work.	2	12	35
An offer of part-time work because of seeking full-time work.	14	24	11
A job not in previous (customary) occupation.	24	24	1
A full-time job due to domestic circumstances.	7	17	25
A part-time job due to domestic circumstances.	13	20	16
A job due to physical, mental, or medical condition.	26	19	4
A job because it paid significantly less than prior employment.	28	19	2
A job because of travel time or transportation problems.	9	29	11
An offer of temporary or commission work (with no prior history of such work).	28	20	1
An offer of temporary or commission work (with recent history of such work).	8	19	22

NOTE: Surveys were received from all 50 states, as well as the District of Columbia, Puerto Rico, and the Virgin Islands.

SOURCE: This table shows the results from a survey conducted by the Interstate Conference of Employment Security Agencies (ICESA). (See note 1 in this chapter.) The survey is meant to reflect the expected Unemployment Insurance agency result, assuming that nonmonetary eligibility decisions are consistent with the applicable state policies.

[a] The response categories are grouped as follows: "always eligible" and "usually eligible" are displayed as eligible, "often varies" is displayed as varies, and "rarely eligible" and "never eligible" are displayed as ineligible.

toward more hybrid approaches, such as determining when unemployment "is due to" a labor dispute. Currently, 23 states use a stoppage-of-work disqualification, 13 states use an active progress disqualification, and 17 states use a different definition. States also have shifted in their initial position regarding lockouts and are now more likely to consider an individual eligible for benefits during a lockout.

OTHER EXCEPTIONS TO ELIGIBILITY

Treatment of Seasonal Employment

In the majority of states, there is no distinction made between wages earned in "seasonal" covered employment and nonseasonal covered employment.[17] In 14 states, however, payment of UI benefits is restricted for workers who earn some or most of their base period wages in employment that is defined as seasonal. These conditions, which vary by state, are defined by state statute and/or by implementing regulation. The seasonal employment restriction usually results in benefit ineligibility during certain parts of the year.[18]

Treatment of Special Groups

In addition to the disqualifications discussed above, special groups of individuals are disqualified from receiving benefits because of their type of employment. These include professional athletes between two successive sports seasons; professional school personnel (specifically, instructional, research, or principal administrative employees of educational institutions) between successive academic years or terms; and individuals who are considered "illegal nonresident aliens." Similarly, students who perform work for the educational institutions in which they are enrolled are excluded from UI coverage in most states.

CONSISTENCY OF DETERMINATIONS WITHIN STATES

In 5 states, a survey was distributed to approximately 30 individuals who determine nonmonetary eligibility either at the initial claims level or for lower-authority appeals. The purpose of this survey was to determine the consistency with which determinations would be made by claims examiners *within* a state for a variety of specific circumstances.[19]

The only nonmonetary eligibility question that resulted in internally inconsistent answers (in 3 of the 5 states) was *refusal of suitable work.* It should be noted that a majority of respondents in these 3 states recognized this difficulty, ranking refusal of suitable work as the first or second most difficult type of case to determine. Finally, a comparison of the survey responses of all claims examiners with those of the state agency (that is, the ICESA survey) indicated that in almost all instances the two sets of respondents were consistent.[20] These results suggest that there is considerable consistency in the determinations of claims examiners within a state, and that their decisions usually reflect the expected state agency result.

VALIDITY OF NONMONETARY SURVEY

On the one issue of seeking only part-time work, the ICESA survey results can be compared to a legal review of each state's statute, rules and regulations, and administrative and judicial case law.[21] This comparison provides a partial check of the validity of the ICESA survey. The legal review indicates that in 10 states, an individual limiting work search to part-time work is *eligible*, and in 24 other states, the same individual is *ineligible* (see Table 8-8).[22] In the 10 states that allow an individual to remain eligible for UI when seeking only part-time work, restrictions regarding eligibility often apply.

In 23 of the 24 states in which the legal review indicates that the individual is ineligible, the results of the ICESA survey discussed in this chapter also conclude that the individual is ineligible. (In the 1 remaining state the survey indicated that eligibility varied.) Of the 10 states in which the legal review indicates that the individual is eligible (with some restrictions), the ICESA survey results conclude that the individual is ineligible in 4 states and that eligibility varies in 6 states. The ICESA survey asked specific questions regarding an individual's history of part-time work and an individual's good cause to leave a job voluntarily, which are the two primary conditions under which an individual would be eligible according to the legal analysis.[23] Of the 10 states in which the legal analysis identified individuals as eligible when seeking part-time work, the ICESA survey found the following: in 8 of the states individuals are eligible if they have a prior part-time work history, in 7 of the states individuals are eligible if they have a medical condition, and in 5 of the

TABLE 8-8. Comparing the ICESA Survey Results to a Legal Review, by Number of States, 1994
ISSUE: "Able and Available for Work—Seeking Only Part-time Work"

	ICESA Survey Results		
Legal Review Results	Eligible[a] (no. of states)	Varies[a] (no. of states)	Ineligible[a] (no. of states)
Eligible (10 states)	0	6	4
Ineligible (24 states)	0	1	23
No Authority (12 states)	0	3	9
Conflicting Authority (7 states)	1	3	3

NOTES: Surveys were received from all 50 states, as well as the District of Columbia, Puerto Rico, and the Virgin Islands.

The Interstate Conference of Employment Security Agencies (ICESA) survey results are calculated based on an average response for a series of eight situations.

SOURCES: This table shows the results from a survey conducted by ICESA (see note 1 in this chapter) and a legal analysis conducted by the National Employment Law Project (1994). The survey is meant to reflect the expected Unemployment Insurance agency result, assuming that nonmonetary eligibility decisions are consistent with the applicable state policies. The legal analysis includes a review of state statute, rules and regulations, and administrative and case law.

[a] The response categories are grouped as follows: "always eligible" and "usually eligible" are displayed as eligible, "often varies" is displayed as varies, and "rarely eligible" and "never eligible" are displayed as ineligible.

states individuals are eligible if they have compelling personal reasons. These results confirm that the ICESA survey is probably a valid reflection of the states' legal positions on nonmonetary eligibility conditions.

POLICY ISSUES

The survey results reveal a number of issues that merit consideration. First, the results confirm that nonmonetary eligibility requirements vary significantly across states and that eligibility is often dependent on the specific circumstances of a given case. As a result, the general lack of published information regarding state nonmonetary eligibility conditions is likely to cause misunderstandings regarding nonmonetary eligibility. Such misunderstandings harm both claimants and employers, and also may place strains on the resources of the UI system by causing additional appeals.

A second issue that merits consideration is that, in at least 12 states, individuals are considered to have voluntarily left without good cause, and therefore are ineligible for UI benefits, when they are unable to work due

to a change in the employment situation—for example, a change in scheduled work hours. This situation may not have been problematic at the inception of the UI system when there was typically one nonworking parent at home to care for children in a family. In recent years, however, it is likely that changes in scheduled work hours could cause substantial hardship for workers with child care or other care-giving responsibilities.

Third, a number of issues directly affect the UI eligibility of contingent workers and individuals working for temporary-help agencies. In many states (between 20 and 24, depending on the specific type of disqualification), unemployed individuals who meet the UI monetary eligibility requirements are nevertheless ineligible for benefits when they have a prior history of temporary (or commission) work and refuse a subsequent offer of temporary (or commission) work. This restriction could make it difficult for the growing number of temporary workers to seek and find permanent work.

NOTES

1. During October and November 1994, the survey was mailed to UI directors in all 50 states, as well as in the District of Columbia, Puerto Rico, and the Virgin Islands. The survey included questions on the following: (1) ability and availability for work requirements, (2) refusal of suitable employment, (3) voluntary leaving without good cause, and (4) misconduct violations. All 53 states responded to the survey.

2. Massachusetts, North Carolina, Oregon, Texas, and Wisconsin participated in the survey.

3. For example, a claimant who leaves work with "good cause," such as an illness, may not meet the "able or available" test initially. Most states, however, would allow the individual to become eligible for benefits as soon as he or she was again able and available for work (that is, had recovered from the illness).

4. The states are Michigan, New Hampshire, and West Virginia.

5. This is based on calculating an average response for a series of eight situations.

6. Some states noted on their survey responses that individuals covered by the Americans with Disabilities Act *are* considered "available" for work when they are seeking part-time work or restricting their available hours.

7. This section discusses how states define good cause. A difficult issue related to this type of disqualification (which is not discussed here) is the determination of whether an individual quit or was fired from a job.

8. Some analyses have found that increases in the severity of penalties have significantly decreased the recipiency rate among unemployed individuals. See Advisory Council on Unemployment Compensation (1994).

9. These survey results indicate that employer-related issues are not considered to be "good cause" as definitively as is indicated in state statutes.

10. Six states automatically disqualify a UI applicant for voluntarily leaving work to marry, 8 states automatically disqualify a UI applicant for leaving work to move with a spouse, and 6 states disqualify a UI applicant for leaving to perform marital, domestic, or filial obligations. U.S. Department of Labor (1994a).

11. The ICESA survey indicates that 43 states disqualify a UI applicant for voluntarily leaving work to marry, 38 states disqualify a UI applicant for leaving work to move with a spouse, and 32 states disqualify a UI applicant for leaving to perform marital or domestic obligations.

12. The 3 states that include travel distance to work in their definition of suitable work are Delaware, New York, and Ohio. U.S. Department of Labor (1994a).

13. In some states, the definition of suitable work changes as the duration of the claimant's unemployment grows. Over time, claimants must accept a lower offered wage. The 11 states with such provisions include Florida, Idaho, Louisiana, Utah, Wyoming, Georgia, Iowa, Maine, Mississippi, Montana, North Dakota. U.S. Department of Labor (1994a).

14. This is indicated by the large number of responses in the "often varies" category.

15. This subsection on "Unemployment Related to a Labor Dispute" is a summary of McHugh (1994) and U.S. Department of Labor (1994a).

16. There is some controversy about how to define both a labor dispute and the location at which the disqualification applies. Most states disqualify workers if they or others of the same grade or class are unemployed by, participate in (45 states), finance (30 states), or are directly interested in (44 states) the labor dispute. In addition, most states apply the disqualification to workers who are unemployed at their "establishment" (usually defined by the courts as the immediate site of employment). Some states also include in their disqualification a "functionally integrated" location where there is not a labor dispute.

17. This subsection on "Treatment of Seasonal Employment" is from U.S. Department of Labor (1994a).

18. In 12 of the 14 states, individuals cannot receive benefits based upon seasonal wage credits unless they are unemployed during the usual operating period of that seasonal employer or industry. In most of these states, the same individual can receive benefits at any time during the benefit year for those wage credits earned in nonseasonal work. In West Virginia and Wisconsin, benefits are usually not paid to seasonal workers who earned a large portion of their base period wages in a seasonal industry unless they also meet specified earnings requirements through covered employment in other industries.

19. The survey of claims examiners included questions from the ICESA survey and also a number of hypothetical cases. The respondents were asked to determine eligibility for both sets of questions.

20. In 1 state there were significant differences between the state agency response and the claims examiners' response for a question on refusal of suitable work; the same was true in another state for a question on misconduct.

21. National Employment Law Project (1994) states that its summary of administrative case law is not definitive; it is based on Commerce Clearing House (1994).

22. In addition, in 19 states, the legal review identified either no authority on the issue (12 states) or conflicting authority between the statute and other sources (7 states). For these states, the survey results conclude that the individual in question would be eligible in 1 state, ineligible in 12 states, and that eligibility varies in 6 states.

23. According to the legal review, 1 state requires that an individual have a history of part-time work (Colorado), 3 states require that an individual have "good cause" for the restriction or that the restriction is "beyond their control" (Delaware, District of Columbia, and Illinois), 2 states require a combination of these two (Massachusetts and New Jersey), 2 states require that the individual seek a minimum number of working days per week (Montana and Washington), and 2 states have no restrictions (California and Ohio). National Employment Law Project (1994).

9 / Benefits: Adequacy

THIS CHAPTER ADDRESSES THE ISSUE of the adequacy of Unemployment Insurance benefits. Because it considers issues related to the levels of benefits, it necessarily includes only those categories of unemployed individuals who are eligible for benefits. Chapters 7 and 8 addressed the issues related to actual eligibility for benefits, and Chapter 10 provides an analysis of the variations in benefit levels and durations across states and across different individual employment and earnings histories.

The question of what constitutes "adequate" UI benefits has been debated since the inception of the UI system. Despite the duration of the debate, no general agreement has emerged about the principles that should govern the amount of an individual's benefit. Nor has federal law ever specified any benefit standard. Thus, benefit levels have varied considerably across states, and continue to do so.

There is some agreement, however, on three basic elements that are relevant to the discussion of benefit adequacy. First, it is generally agreed that benefits should be related in some way to an individual's previous earnings; all states calculate benefits as a percentage of some measure of an individual's wages. Second, it is agreed that there should be a maximum amount that any individual can receive in benefits; all states place some cap on benefit levels. Third, all states' UI systems function generally as social insurance programs, operating on the assumption of "presumed need" (see Becker 1965). That is to say, benefits are provided on the assumption that a recipient who falls into a given category (usually based on previous employment and earnings) requires a certain level of

benefits. With the exception of dependent allowances, these benefits are generally not based upon any factors related to individual circumstance.[1] The discussion below elaborates on some of these basic points of agreement.

REPLACEMENT RATE

Because the replacement rate captures the relationship between an individual's UI benefits and previous earnings, most discussions of adequacy have used it as the primary instrument through which adequacy might be considered. It should be emphasized that a true replacement rate must be seen in reference to an *individual* UI recipient only.

The ratio that is often reported as a state or national "replacement rate" actually compares average benefits paid to UI recipients to average wages paid in covered employment. Because it compares data for two different populations, this ratio is *not* a measure of the extent to which UI benefits replace the wages of individuals who actually receive the benefits. Analysis of available data suggests that the reported ratio significantly understates the actual replacement rate for individual UI recipients.[2]

Unless otherwise noted, the term "replacement rate" is used in this report in the sense of the individual concept of replacement rate. Further, the replacement rate is defined as the ratio of *pre-tax* benefit level to *pre-tax* wages over a specified period of time for an individual.[3]

DEFINING ADEQUACY

In selecting a definition of adequacy that is based on a replacement rate measure, two factors must be considered: (1) the proportion of wages that are to be replaced, and (2) the fraction of the population of UI recipients to which the adequacy standard should actually apply. These components of adequacy are discussed below.

Proportion of Wages

Historically, a 50 percent replacement rate has been the standard of adequacy selected when a replacement rate has been specifically designated. A goal of a 50 percent replacement rate was originally articulated in 1935, although it appears that this was "little more than a common-sense

estimate" designed to take into account political factors, estimates of need, and estimates of possible work disincentives (Becker 1980, 7). Today, most state benefit formulas are implicitly based on this goal. They are designed to provide a weekly benefit amount of at least 50 percent of their previous wages to recipients who are not at the maximum benefit level. Figure 9-1 shows the number of states that currently meet three possible definitions of an adequate replacement rate at a number of different wage levels.[4]

Percentage of Population

The percentage of the population to which any definition of adequacy would apply must also be considered. In all states, replacement rates decline (often significantly) as an individual's previous earnings increase beyond a given point. This practice reflects the view that a higher percentage of wages should be replaced for those with lower incomes. It is related to the general belief that not all individuals should receive benefits equal to the same proportion of their previous earnings, as reflected in the establishment of maximum benefit amounts in all states. Thus, if a specific replacement rate is defined as adequate, reference also should be made to the percentage of a given population to which the rate should apply.

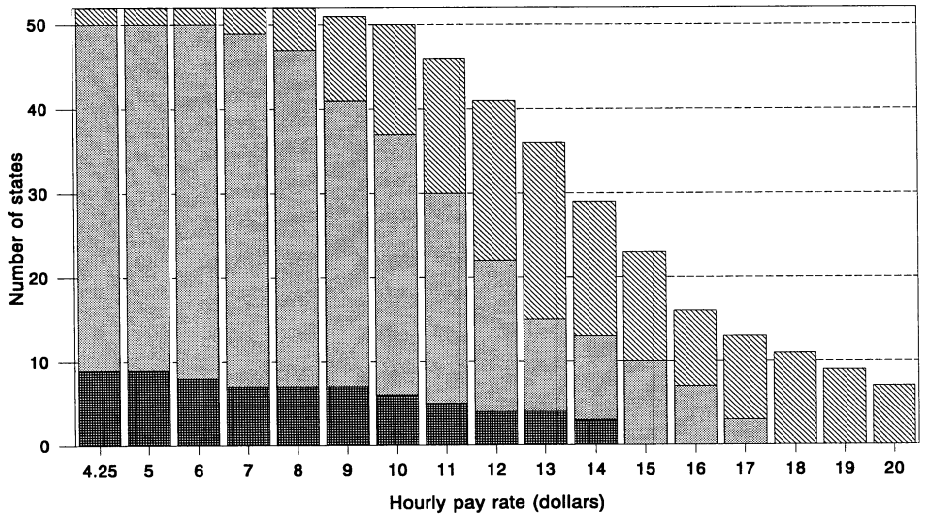
In 1973, President Richard Nixon articulated a goal of providing "at least four-fifths of the Nation's insured work force half-pay or better when unemployed" (Becker 1980, 4). This "one-half for four-fifths" standard has also been cited frequently in considering the adequacy of UI benefits. (See, e.g., O'Leary 1994.)

Effect of the Maximum Benefit Amount

The level of a state's maximum benefit amount has a *direct* impact on the percentage of the population that is affected by a standard of benefit adequacy based on replacement rate. As noted, in most states, benefit amounts are set at one-half of previous wages—up to a given level. Consequently, most individuals whose earnings qualify them for the maximum benefit amount in a state have *less* than one-half of their wages replaced.

Thus, in states with relatively low maximum benefit amounts (when measured as a percentage of average wages in the state), more individuals

FIGURE 9-1. Number of States Meeting Various Weekly Replacement Rates for Different Wage Levels, 1994



NOTE: The calculations for this figure include 49 states, the District of Columbia, Puerto Rico, and the Virgin Islands; Michigan is not included.
SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a).

would qualify for maximum benefits and would therefore have a lower percentage of their wages replaced. As a result, the level of the maximum benefit amount has a direct effect upon the following adequacy-related statistics: (1) the percentage of recipients within a given state who receive benefits that are less than 50 percent of previous wages, and (2) the average state replacement rate for all individuals receiving UI benefits.

In 35 states, the maximum benefit amount is indexed to a given percentage of state average wages (see Table 9-1). Maximum benefit amounts are generally even lower as a percentage of average wages in the 18 states in which the maximum amount is not indexed. The lower the wage rate at which the maximum benefit amount in a state is set, the higher is the percentage of workers whose replacement rates *are* affected by the state cap on benefits. A 1980 study found, for example, that in order to meet the "one-half for four-fifths" goal, state maximum benefit amounts would have to be set, on average, at 75 percent of state average covered wages (Crosslin and Ross 1980).

Analysis of available data, however, indicates that even states with maximum benefit amounts significantly lower than 75 percent of state average wages have achieved or come close to achieving the "one-half for four-fifths" goal. Five of the six states for which data were available had maximum benefit amounts between 48 and 55 percent of average weekly wages. Three of those five still met the goal by paying replacement rates of at least 50 percent to at least 80 percent of workers, and all five states paid a 50 percent replacement rate to at least 70 percent of workers.[5]

EXAMINING THE ADEQUACY OF BENEFITS

A Conceptual Perspective

Becker states that "a satisfactory norm of adequacy must have two elements—one positive, by which it can explain why benefits are as large as they are, and one negative, by which it can explain why they are no larger" (quoted in O'Leary 1994, 3). Thus, under this definition, a satisfactory norm must take a number of factors into consideration, including an individual's previous wages, the expected financial needs of those with previous wages of a given level, and the possible work disincentives that may result from high replacement rates.

In a set of criteria,[6] Becker suggests that benefits would be adequate if they (1) provided sufficient income to pay the nondeferrable expenditures

TABLE 9-1. Ratio of Maximum Weekly Benefit Amount (WBA) and State Average Weekly Wage (AWW), by State, 1994

State	Actual Ratio of Max. WBA to AWW		Actual Ratio of Max. WBA to AWW
Hawaii	69*	District of Columbia	50*
Washington	69*	New Mexico	50*
Pennsylvania	67*	Ohio	50*
Arkansas	66*	Puerto Rico	49*
North Carolina	66*	South Carolina	49*
Rhode Island	66*	South Dakota	49*
West Virginia	66*	Vermont	49*
North Dakota	65*	Maine	48*
Minnesota	63*	Nevada	48*
Oregon	63*	New York	48
Idaho	60*	Virgin Islands	48*
Kansas	60*	Mississippi	45
Utah	60*	Virginia	45
Montana	59*	Illinois	44*
Oklahoma	58*	Maryland	44
Massachusetts	57*	Tennessee	43
Florida	56	Arizona	42
New Jersey	56*	Louisiana	42*
Colorado	55*	New Hampshire	42
Kentucky	55*	California	41
Michigan	55*	Georgia	40
Wisconsin	55	Nebraska	40
Wyoming	55*	Alabama	39
Iowa	53*	Missouri	39
Delaware	52	Indiana	38
Connecticut	51*	Alaska	35
Texas	51		

NOTES: An asterisk (*) indicates that the state indexes the maximum weekly benefit amount, calculating it as a percentage of average weekly wages in the state. Average weekly wage is based on 12 months ending in the second quarter of 1993.

States with indexed maximum weekly benefit amounts may report a different percentage than that calculated above. This is due to one or more of the following factors: (1) state calculations of average weekly wage are based on only part of the work force, (2) maximum weekly benefit amounts are frozen by states, (3) indexed percentages that change are based on state trust fund balances, and (4) average weekly wage amounts are set by law or are based on a different base period.

SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a,b).

of recipients and (2) prevented recipients from experiencing "too much" hardship (quoted in Haber and Murray 1966, 187). The following sections discuss the existing evidence on the extent to which the current UI system has met these two general conditions.

Covering Nondeferrable Expenditures

A number of empirical studies of benefit adequacy have been conducted in the past four decades, although few have been undertaken in recent years. This section briefly discusses the major efforts of the past and provides some additional information by applying estimates of more recent expenditure patterns to the definitions explored in the previous studies. It should be noted that there have been a number of serious criticisms of efforts to measure poverty and "necessary" expenditures. Overall, efforts to define these concepts are complex and remain quite controversial.

The most recent major efforts to analyze the adequacy of UI benefits were undertaken in the late 1970s in South Carolina and Arizona.[7] UI recipients were asked questions about their expenditures on classes of goods that were deemed necessary. The South Carolina study categorized as necessary those expenditures that were "recurring." They generally include food, clothing, medical care, housing, some transportation, and payments on outstanding debt (Blaustein and Mackin 1977). An expanded definition, "necessary and obligated" expenses, was used in the Arizona study (Burgess and Kingston 1978a,b). This category generally includes those items included in the definition of "recurring," plus insurance, regular services, and regular support payments. The "recurring" category yields a lower estimate of necessary expenditures; "necessary and obligated" yields a higher estimate.

The level of UI benefits was then compared to the level of necessary expenses in order to determine the "adequacy" of the benefits. The South Carolina study found that, at the time, approximately two-thirds of all recipients received benefits that were adequate to cover their "recurring" expenditures. The Arizona study found a much smaller proportion of recipients received adequate benefits, although this result is partially attributed to the expanded definition of necessary expenditures used in that study (O'Leary 1994).

Using the definitions in the South Carolina and Arizona studies with 1992 data from the Consumer Expenditure Survey, analysis indicates that

the average household spends between 33 percent and 49 percent of its income on necessary items, with the difference dependent upon the definition of what is necessary.[8] These estimates vary widely by income category, with lower-income households spending a larger percentage of income on necessities than higher-income households spend. Households in the second-lowest category (with income between $5,000 and $9,999) spend between 84 percent and 113 percent of income on necessities. The highest-income category (household income over $70,000) spends, on average, between 17 percent and 30 percent of income on necessities (see Table 9-2).

Figure 9-2 shows the following: (1) the average percentage of weekly pre-tax income that is replaced by UI benefits for workers who were employed full-time, full-year at different wage levels; and (2) the percentage of pre-tax household income that is spent on the two different categories of necessary expenditures. This graph is intended only to provide a rough comparison between two extremely different concepts.[9] It suggests that, in some categories, *average* replacement rates across states may come close to the percentage of household income that is spent on necessary expenditures using the more conservative definition of "necessary."

Table 9-2 reports the number of states that replace sufficient wages to meet the two definitions of necessary expenditures for households in each of several income categories. The table, therefore, provides some information regarding the number of states that would meet an adequacy standard based on necessary expenditure data. It indicates that a majority of states meet the low estimate of necessary expenditures for average incomes between $20,000 and $40,000. Fewer states, however, meet the low estimate of necessary expenditures for other income ranges. Almost no states meet the high estimates of necessary expenditures at any income range.

Preventing Hardship

UI benefits do have the effect of preventing some extreme hardship by keeping households out of poverty. Almost 20 percent of long-term UI recipients receive additional income through UI but still live below the poverty line. Estimates suggest, however, that the receipt of UI benefits may prevent up to 25 percent more families from falling below the poverty line (Congressional Budget Office 1990).[10]

TABLE 9-2. Necessary Expenditures by Income Category, Full-time, Full-year Workers, 1992

Income Category	Percent of Pre-tax Income Spent on Necessary Expenditures and Number of States Currently Paying UI Benefits Meeting that Level			
	Low Estimate[a]		High Estimate[b]	
	Percentage Spent	Number of States	Percentage Spent	Number of States
Less than $5,000	276[c]	—[d]	379[c]	—[d]
$5,000 - $9,999	84	—[d]	113	—[d]
$10,000 - $14,999	65	3	90	1
$15,000 - $19,999	54	15	75	1
$20,000 - $29,999	42	38	62	2
$30,000 - $39,999	34	30	50	5
$40,000 - $49,999	31	15	48	0
$50,000 - $69,999	26	0	41	0
$70,000 and over	17	0	30	0
All	33	—	49	—

NOTE: A dash (—) indicates data are not applicable.
SOURCE: ACUC calculations based on data from Consumer Expenditure Survey (1992) and U.S. Department of Labor (1994a).

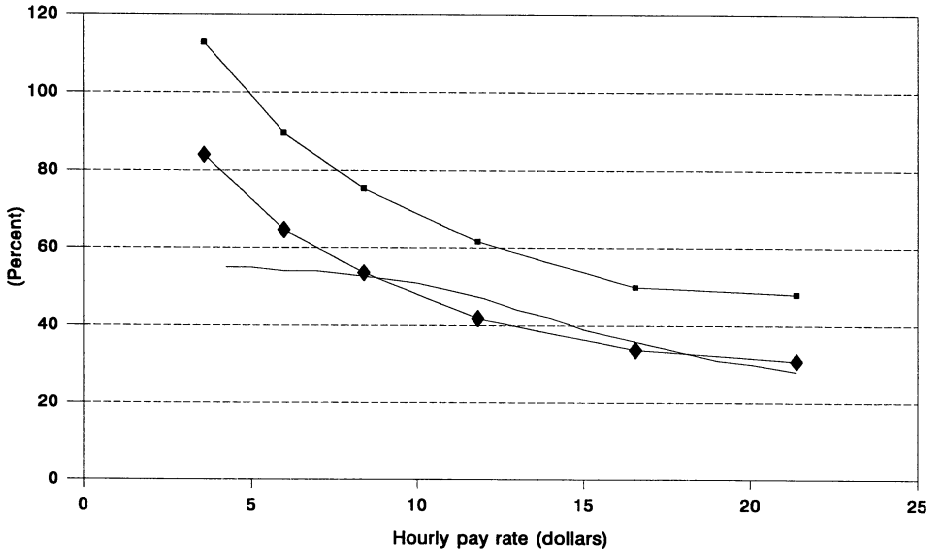
[a] The "low estimate" is based on calculations from the 1992 Consumer Expenditure Survey, using the definition of "recurring expenditures" suggested by Blaustein and Mackin (1977). Generally, this category includes housing, utilities, health care, some transportation, and debt payments.

[b] The "high estimate" is based on calculations from the 1992 Consumer Expenditure Survey, using the definition of "necessary and obligated expenditures" suggested by Burgess and Kingston (1978a,b). Generally, this category includes housing, utilities, health care, transportation, debt payments, insurance, regular services, and support payments.

[c] The extremely high estimates reported for the lowest income group are likely an overestimate. This is a result of a number of factors, including underreporting of income (including cash gifts from relatives). The Bureau of Labor Statistics reports that the income data in the Consumer Expenditure Survey is less reliable than the expenditure data.

[d] Full-time, full-year workers working at minimum wage would earn more than the corresponding income level; as a result, no full-time, full-year benefit calculations were performed for these income categories.

FIGURE 9-2. Weekly Replacement Rates and Expenditure Patterns for Different Wage Levels



SOURCES: Replacement rate is pre-tax ACUC estimate for full-time/full-year worker, 1994 average (all states). Expenditures are from Consumer Expenditure Survey (1992). High estimate is based on Burgess and Kingston (1978a); low estimate is based on Blaustein and Mackin (1977). See note 7.

Other Issues

Some research efforts have attempted to avoid the necessity of determining whether any given expense is deferrable or not. A recent analysis by Gruber (1994) suggests that, despite large positive effects in smoothing the consumption of UI recipients, the distortions to job search behavior caused by the payments of UI benefits are so large that the current range of replacement rates is significantly higher than the optimal UI benefit level. A recent theoretical study by O'Leary (1994) found that a replacement rate of 50 percent for an *average* unemployment spell is "adequate and not excessive." This study further suggests that such a replacement rate tends to provide benefits that are higher than necessary for individuals with short unemployment spells and lower than necessary for individuals with longer unemployment spells.

IMPACT OF BENEFIT TAXATION

In any consideration of the wage replacement rate and benefit adequacy, it is critical to take into account the effect of the taxation of benefits. The classification of all UI benefits as taxable income since 1986 has *directly reduced the net value of benefits.*[11] Thus, benefit taxation has decreased the ratio of after-tax benefits to pre-tax wages, although this effect is *not* seen in the ratio of pre-tax benefits to pre-tax wages that is used throughout this report as the definition of replacement rate.

The Congressional Research Service (1992a) states that the purpose of taxing benefits was to treat benefits the same as wages, to raise needed federal revenue, and to reduce the incentive to collect benefits for individuals with substantial income without having to means-test UI benefits. Overall, the taxation of UI benefits reflects a view that benefits represent a form of additional individual income.[12]

Taxation of benefits affects all households except those that earn too little to pay federal income tax. For example, federal taxes would not be collected on UI benefits received by the following: (1) a single individual who earns less than $6,050[13] per year or (2) a family of four (a married couple with two dependent children) that earns less than $19,050[14] per year.[15] For all other UI recipients, the net after-tax value of UI benefits is reduced by the marginal tax rate for the appropriate tax bracket. Thus, the value of the benefits is reduced by 15 percent for most households in the lowest tax bracket and by 28 percent for most households in the second tax

bracket.[16] A definition of the replacement rate that measures after-tax benefits as a percentage of pre-tax earnings would also decline based on the marginal tax rate.[17] Because of state taxes, the total effect of taxation varies across states.[18]

The Congressional Budget Office (CBO) has estimated the actual effect of benefit taxation on UI benefits. The CBO analysis suggests that individuals do pay a significant percentage of their UI benefits in taxes. The percentage of taxes paid on benefits increases for individuals in higher income ranges (see Table 9-3). For example, those with incomes below $10,000 lose, on average, 5 percent of their UI benefits to taxes. Individuals with incomes between $15,000 and $50,000 lose, on average, between 16 and 20 percent of their UI benefits to taxes.

TABLE 9-3. Estimated Effect of Taxing UI Benefits, by Income Category, 1994

Income Category	Recipients Affected by Taxation (percent)	Total UI Benefits (dollars in millions)[a]	Total Taxes on UI Benefits (dollars in millions)	Taxes as Percentage of UI Benefits
Less than $10,000	50.0	2,056	142	6.9
$10,000 to $15,000	82.7	1,761	211	12.0
$15,000 to $20,000	94.9	2,075	347	16.7
$20,000 to $25,000	97.6	1,939	374	19.3
$25,000 to $30,000	98.3	1,804	344	19.1
$30,000 to $40,000	98.7	2,654	456	17.2
$40,000 to $50,000	100.0	1,919	329	17.1
$50,000 to $100,000	100.0	3,344	760	22.7
Over $100,000	97.1	546	159	29.1
All	89.8	18,052	3,122[a]	17.3

SOURCE: U.S. House of Representatives, Committee on Ways and Means (1994, 274).

[a] The Congressional Budget Office (CBO) suggests that Current Population Survey (CPS) data understate the effects of taxation. Because of underreporting of UI benefits in the CPS and underestimates of benefits paid in 1994, CBO estimates that taxes collected on benefits probably will be twice as high as the $3.1 billion reported in this table. It is likely that this underreporting is more pronounced among households in the lower-income categories.

NOTES

1. Dependent allowances are provided in 13 states (see Chapter 10).

2. This statement is supported by existing state data on actual individual replacement rates. These unpublished data were available from six states: Illinois (1984 and 1985), Michigan (1994), Pennsylvania (1988 and 1989), Texas (1994), Washington State (1988 and 1989), and Wisconsin (1994).

For the indicated time periods, actual replacement rates in those states (that is, individual UI recipients' weekly benefit amounts as a percentage of their average weekly base period earnings) were, on average, 62 percent in Illinois, 52 percent in Michigan, 72 percent in Pennsylvania, 68 percent in Texas, 63 percent in Washington State, and 71 percent in Wisconsin.

When compared with *reported* replacement rates for comparable time periods, these data indicate that the reported rates significantly *understate* the actual replacement rate in all six states. In five of the six states, the actual rate is understated by between 25 and 30 percentage points. (Reported rates are as follows: 35 percent in Illinois, 39 percent in Michigan, 42 percent in Pennsylvania, 38 percent in Texas, 38 percent in Washington State, and 39 percent in Wisconsin. The most recent data available from the U.S. Department of Labor—from the third quarter of 1994—were used for the reported replacement rates in Michigan, Texas, and Wisconsin).

3. Although it may be preferable to use net wages and net benefits, accurate data in these categories are considerably more difficult to obtain than comparable pre-tax data. As a result, this chapter uses pre-tax data in considering replacement rates. The effects of benefit taxation are discussed later in the chapter.

4. The source of the replacement rate statistics in Figures 9-1 and 9-2 and Table 9-2 is a series of calculations performed by the ACUC staff based on state laws related to eligibility, benefit levels, and benefit durations. For more information on methodology, see Chapter 7, note 3.

5. This analysis was conducted using unpublished data from six states: Illinois (1984 and 1985), Michigan (1994), Pennsylvania (1988 and 1989), Texas (1994), Washington State (1988 and 1989), and Wisconsin (1994).

For the indicated time periods, state maximum weekly benefit amounts as a percentage of state average weekly wages were as follows: 48 percent in Illinois, 55 percent in Michigan, 67 percent in Pennsylvania, 55 percent in Texas, 55 percent in Washington State, and 51 percent in Wisconsin.

The percentages of UI recipients who had at least one-half of their average base period wages replaced in the indicated time periods were as follows: 70 percent in Illinois, 76 percent in Michigan, 77 percent in Pennsylvania, 80 percent in Texas, 90 percent in Washington State, and 83 percent in Wisconsin.

6. Within this set of criteria, Becker also suggests the goals of providing a replacement rate of 50 percent and keeping recipients off welfare.

7. Sponsored by the U.S. Department of Labor, these studies were conducted by Blaustein and Mackin (1977) and Burgess and Kingston (1978a,b). They closely paralleled a set of studies conducted in the 1950s. For more information on the 1950s studies, see Haber and Murray (1966). Generally, the 1950s studies found the

following: (1) benefits of at least 50 percent of previous wages were sufficient to cover "non-deferrable" expenses, and (2) none of the states studied came close to paying 50 percent of wages to 80 percent of recipients.

8. This analysis was conducted by ACUC staff using data from the 1992 Consumer Expenditure Survey.

9. The replacement rate line displays average data for only one category (full-time, full-year workers) of hypothetical UI recipients, whereas expenditure lines display average data for all possible categories of households within various income ranges. Thus, the lines are not strictly comparable, although they do provide a useful comparison of recent UI benefit patterns and consumer expenditure patterns that cannot be displayed in a more rigorous manner due to the limited data available at the individual level.

10. Long-term recipients are defined as those who have received UI benefits for 4 months or more.

11. In 1978, the Internal Revenue Code was amended to include UI benefits as taxable income for households with adjusted gross income of at least $25,000, or single individuals with gross income of at least $20,000. The income thresholds were reduced to $18,000 and $12,000, respectively, in 1982, and were eliminated entirely in 1986. Thus, all UI benefits received since 1986 are taxable. Taxes are not withheld at the time of UI receipt, but are included in the calculation of year-end gross taxable income. This may assist those who face a short-term cash shortage, but not a long-term financial crisis, as a result of an unemployment spell.

12. Thus, policymakers face at least two issues related to taxation of benefits. First, *should* UI benefits be treated as income and, therefore, be taxed? Second, if benefits are taxed, should taxes be withheld from the benefit checks, or should such an option be made available to recipients?

13. This is the equivalent of working at minimum wage ($4.25) for 52 weeks per year, 27 hours per week.

14. This is the equivalent of working for $9.15 per hour for 52 weeks per year, 40 hours per week.

15. These earnings thresholds include the effect of the Earned Income Tax Credit (EITC). It should be noted that the EITC supplements earned income for households below a given income level, but does not supplement UI benefits. The receipt of UI benefits can have a negative impact on the level of an individual's EITC, however, because the level of EITC rises with an individual's actual earnings (which does not include UI benefits), but is reduced on the basis of the individual's Adjusted Gross Income (AGI, which does include UI benefits).

The impact of this structure is as follows: UI benefits cannot *increase* an individual's EITC, because it is paid only on earnings (which are not increased by the receipt of UI). If the individual's AGI (including UI) is at a level (currently above $12,200) at which EITC is being phased out, then the receipt of UI benefits will serve to *decrease* the EITC (at an implicit tax rate of approximately 15 percent). If the individual's AGI is not above $12,200, then the level of the EITC will not be affected by the receipt of UI benefits.

16. Assuming normal standard deductions, single individuals who earn less than $28,150 are in the lowest tax bracket, with a marginal tax rate of 15 percent. Single individuals who earn less than $59,550 are in the second tax bracket, with a marginal tax rate of 28 percent. These income thresholds are somewhat higher for households with a spouse or dependent children. There are three other, higher tax brackets.

A single individual, for example, who earns a total of $25,000 in a year (i.e., in the lowest tax bracket), including a total of $4,000 in UI benefits, would have the net value of the benefits reduced to $3,400 (85 percent of the pre-tax level). A single individual who earns a total of $35,000 in a year, including the same total of $4,000 in UI benefits, would have the net value of the benefits reduced to $2,880 (72 percent of their pre-tax level).

17. The impact of taxation on individual replacement rates is a complicated matter because it depends heavily on whether after-tax benefits are being compared to pre-tax or after-tax earnings.

Throughout this report, as noted earlier, pre-tax benefits are compared to pre-tax earnings. When *after-tax* benefits are compared to the same pre-tax earnings, the replacement rate is reduced by the same percentage as the marginal tax rate. Thus, a 50 percent replacement rate would be reduced to 42.5 percent for an individual at the 15 percent marginal tax rate and to 36 percent for an individual at the 28 percent marginal tax rate.

When after-tax benefits are compared to after-tax earnings, however, the replacement rates are generally *higher* than when comparing pre-tax benefits and earnings. The Congressional Research Service found that the replacement rate of after-tax benefits to after-tax earnings was generally 4 to 7 percentage points higher than the pre-tax ratio for a low-wage earner (defined as earning $11,400 per year). For a high-wage earner (defined as earning $44,812 per year), the after-tax ratio was generally 2 to 4 percentage points higher than the pre-tax ratio (Congressional Research Service 1988). These differences in pre-tax and after-tax replacement rates are a result of the progressivity of the income tax system.

18. The complexity and diversity of state taxation laws prevent any direct analysis of the differences in this report.

10 / Benefits: Variations in Level and Duration

THIS CHAPTER PRESENTS A DETAILED examination of variations in UI benefit levels and replacement rates across states and across different levels of earnings. The analysis is based in large part on 1994 calculations of benefit levels under existing state laws for hypothetical individuals with various employment and earnings histories.[1] This look at the levels of benefits paid to individuals who are determined to be eligible for UI complements the discussions of eligibility and adequacy in Chapters 7, 8, and 9. The following conclusions are based on the results from the analysis of benefit variation:

- Weekly replacement rates and duration-adjusted replacement rates for individuals tend to decline as wages increase.

- On average, full-time, full-year workers who earn less than $11 per hour have weekly and duration-adjusted replacement rates greater than or equal to 50 percent of previous wages.

- While average weekly benefit amounts (in constant dollars) have declined slightly in the past two decades, they have not declined as sharply as average weekly wages have declined.

- For individuals at the same wage rate, average weekly benefit amounts are higher for full-time workers than for part-time

workers. Average replacement rates, however, are generally higher for part-time workers than for full-time workers.

- Weekly and total potential benefit amounts vary considerably among workers who have worked at the same wage for the same number of total hours in their base period. For workers at most wage rates, benefits are significantly higher if their hours of work are concentrated in two quarters of the base period.

- In the 13 states that provide higher benefits to individuals with dependents, replacement rates are, on average, significantly higher for workers with families when compared to those for single workers at the same wage level.

These findings are discussed below. The dimensions of the variations in benefit levels and duration are described first. Subsections then address variations among single, full-time, full-year workers at various wage rates; variations among full-time and part-time workers; variations among full-year and part-year workers; variations based on the distribution of work hours; and, finally, variations among workers with dependents. Reference should also be made to Chapter 9 for its discussion of the impact of benefit taxation on benefit levels.

DIMENSIONS OF VARIATION

Most measures of UI benefits vary according to a number of factors. The measures include the weekly benefit amount, the duration and total potential benefit amount, the weekly replacement rate, and the duration-adjusted replacement rate. Each of these measures varies across three different dimensions:

1. The measures vary across *individuals*, because the level and duration of benefits are determined by a formula related to an individual's employment and earnings history. The calculation of each measure for a variety of hypothetical workers helps demonstrate the different relationships between an individual's work history and the level, duration, and replacement rate of his or her benefits.

2. The measures also vary across *states*, because of state differences in UI laws and benefit formulas.

3. The measures vary across *time*, because of changes in laws and formulas over time.

These variations—particularly across individuals—are discussed below; tables and figures provide additional information on individual and state variations. The discussion focuses primarily on variations in the *average* levels of these measures in states in which an individual at a given wage level is eligible for benefits; the figures provide additional detail on the *highest* and *lowest* state levels of the measures for each wage level.

Variations Among Single, Full-Time, Full-Year Workers

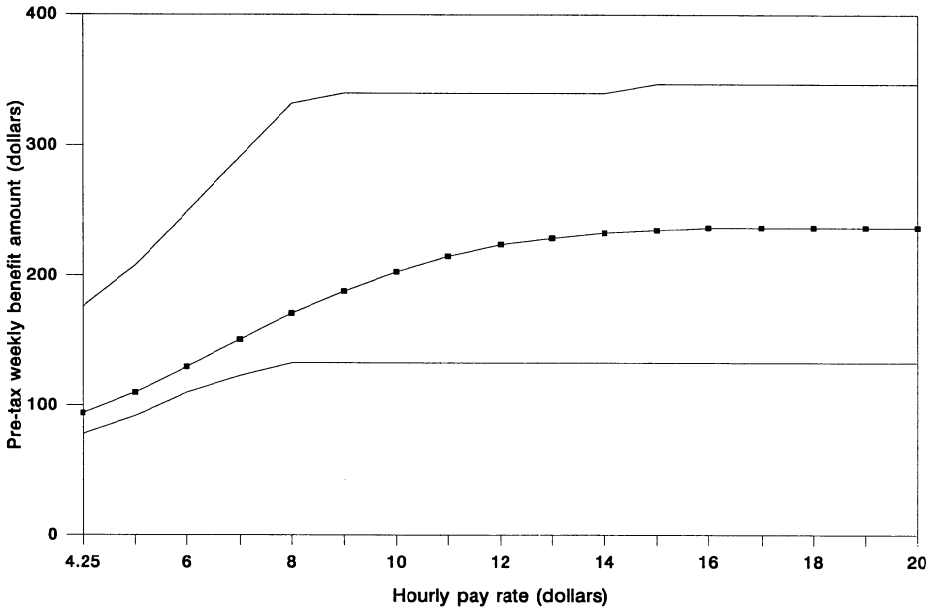
Weekly Benefit Amount

The weekly benefit amount, which is determined for individuals according to a formula based on their employment and earnings history, is often used as a measure of the level of UI benefits. This scale, however, is an indicator only of the *weekly* impact of benefits.

Figure 10-1 illustrates the variation in pre-tax weekly benefit amounts for single, full-time, full-year workers with different rates of hourly pay. As wages increase, the average benefit level across states rises steadily to $224 for an individual earning $12 per hour. Beyond this point, the average weekly benefit amount rises more slowly as the hourly rate increases, and levels off at $237 for individuals earning more than about $16 per hour. The slower increase in the average weekly amount at higher wage rates is generally a result of state limits on maximum weekly benefit amounts.

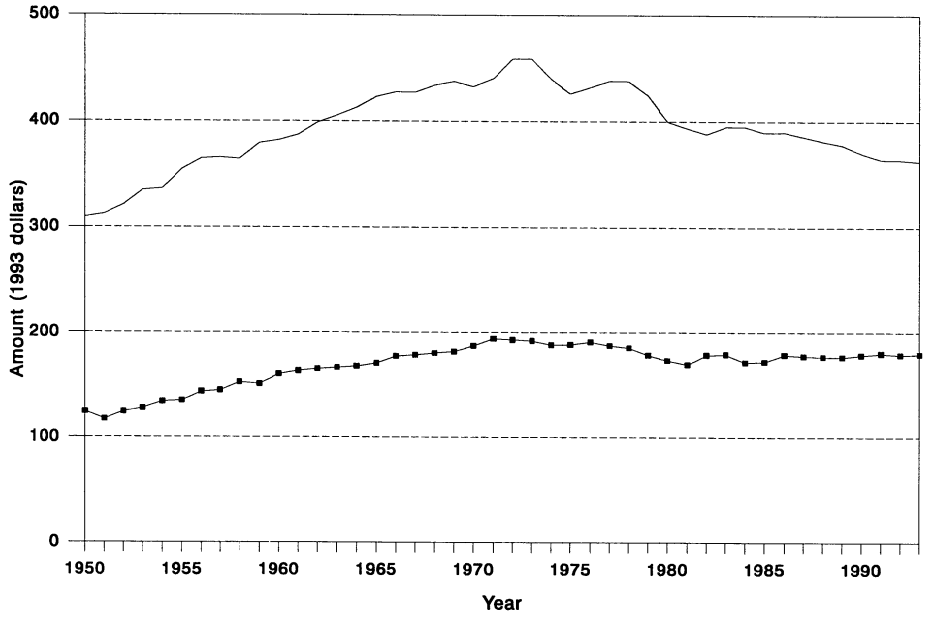
A comparison of time trends in average weekly benefit amount and average weekly wages (both adjusted for inflation) is illustrated in Figure 10-2. Generally, benefit amounts have tracked trends in average weekly wages, with average weekly wages declining more sharply than weekly benefit amounts during the past 20 years. More detail on variations across states for a worker earning minimum wage is presented in Table 10-1, and for a worker earning $10 per hour in Table 10-2.

FIGURE 10-1. Weekly Benefit Amounts (WBA) for Single, Full-time, Full-year Workers at Various Wage Levels, All States, 1994



NOTE: The area between the solid lines represents the range of weekly benefit amounts across states; the marked line represents the average weekly benefit amount.
SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a).

FIGURE 10-2. Average Weekly Wage and Weekly Benefit Amount (WBA), 1950-1993



SOURCES: Council of Economic Advisors (1994) and U.S. Department of Labor (1994c).

TABLE 10-1. Benefit Simulation for Single Individual Working Full-time, Full-year and Earning $4.25 per Hour, 1994

States	Weekly Benefit (dollars)	Duration (weeks)	Total Potential Benefit (dollars)	Weekly Repl. Rate (percent)	Duration-Adjusted Repl. Rate (percent)
Alabama	165	18	2,970	97	67
Alaska	107	26	2,782	63	63
Arizona	88	26	2,288	52	52
Arkansas	85	26	2,210	50	50
California	85	26	2,210	50	50
Colorado	102	26	2,652	60	60
Connecticut	85	26	2,210	50	50
Delaware	96	26	2,496	56	56
District of Columbia	85	26	2,210	50	50
Florida	85	26	2,210	50	50
Georgia	88	25	2,200	52	50
Hawaii	106	26	2,756	62	62
Idaho	85	26	2,210	50	50
Illinois	84	26	2,184	49	49
Indiana	98	25	2,450	58	55
Iowa	96	26	2,496	56	56
Kansas	93	26	2,418	55	55
Kentucky	105	26	2,730	62	62
Louisiana	78	26	2,028	46	46
Maine	94	26	2,444	55	55
Maryland	93	26	2,418	55	55
Massachusetts	85	30	2,550	50	58
Minnesota	85	26	2,210	50	50
Mississippi	85	26	2,210	50	50
Missouri	99	26	2,574	58	58
Montana	88	26	2,288	52	52
Nebraska	92	26	2,392	54	54
Nevada	88	26	2,288	52	52
New Hampshire	100	26	2,600	59	59
New Jersey	102	26	2,652	60	60
New Mexico	85	26	2,210	50	50
New York	85	26	2,210	50	50
North Carolina	85	26	2,210	50	50
North Dakota	85	26	2,210	50	50
Ohio	85	26	2,210	50	50
Oklahoma	88	26	2,288	52	52

(continued)

TABLE 10-1. (continued)

States	Weekly Benefit (dollars)	Duration (weeks)	Total Potential Benefit (dollars)	Weekly Repl. Rate (percent)	Duration-Adjusted Repl. Rate (percent)
Oregon	110	26	2,860	65	65
Pennsylvania	94	26	2,444	55	55
Puerto Rico	85	26	2,210	50	50
Rhode Island	102	26	2,652	60	60
South Carolina	85	26	2,210	50	50
South Dakota	85	26	2,210	50	50
Tennessee	85	26	2,210	50	50
Texas	89	26	2,314	52	52
Utah	85	26	2,210	50	50
Vermont	98	26	2,548	58	58
Virginia	89	25	2,225	52	50
Virgin Islands	85	26	2,210	50	50
Washington	176	17	2,992	104	68
West Virginia	92	26	2,392	54	54
Wisconsin	88	26	2,288	52	52
Wyoming	88	26	2,288	52	52

NOTE: Data are not available for the state of Michigan.

SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a).

TABLE 10-2. Benefit Simulation for Single Individual Working Full-time, Full-year and Earning $10.00 per Hour, 1994

States	Weekly Benefit (dollars)	Duration (weeks)	Total Potential Benefit (dollars)	Weekly Repl. Rate (percent)	Duration-Adjusted Repl. Rate (percent)
Alabama	165	26	4,290	41	41
Alaska	202	26	5,252	51	51
Arizona	185	26	4,810	46	46
Arkansas	200	26	5,200	50	50
California	158	26	4,108	40	40
Colorado	240	26	6,240	60	60
Connecticut	200	26	5,200	50	50
Delaware	226	26	5,876	57	57
District of Columbia	200	26	5,200	50	50
Florida	200	26	5,200	50	50
Georgia	185	26	4,810	46	46
Hawaii	248	26	6,448	62	62
Idaho	200	26	5,200	50	50
Illinois	198	26	5,148	50	50
Indiana	170	26	4,420	43	43
Iowa	212	26	5,486	53	53
Kansas	221	26	5,746	55	55
Kentucky	229	26	5,954	57	57
Louisiana	181	26	4,706	45	45
Maine	192	26	4,992	48	48
Maryland	217	26	5,642	54	54
Massachusetts	200	30	6,000	50	58
Minnesota	200	26	5,200	50	50
Mississippi	165	26	4,290	41	41
Missouri	175	26	4,550	44	44
Montana	208	26	5,408	52	52
Nebraska	154	26	4,004	39	39
Nevada	208	26	5,408	52	52
New Hampshire	179	26	4,654	45	45
New Jersey	240	26	6,240	60	60
New Mexico	197	26	5,122	49	49
New York	200	26	5,200	50	50
North Carolina	200	26	5,200	50	50
North Dakota	200	26	5,200	50	50
Ohio	200	26	5,200	50	50
Oklahoma	208	20	4,160	52	40

(continued)

TABLE 10-2. (continued)

States	Weekly Benefit (dollars)	Duration (weeks)	Total Potential Benefit (dollars)	Weekly Repl. Rate (percent)	Duration-Adjusted Repl. Rate (percent)
Oregon	260	26	6,760	65	65
Pennsylvania	213	26	5,538	53	53
Puerto Rico	133	26	3,458	33	33
Rhode Island	240	26	6,240	60	60
South Carolina	200	26	5,200	50	50
South Dakota	168	26	4,368	42	42
Tennessee	185	26	4,810	46	46
Texas	209	26	5,434	52	52
Utah	200	26	5,200	50	50
Vermont	209	26	5,434	52	52
Virginia	208	25	5,200	52	50
Virgin Islands	200	26	5,200	50	50
Washington	340	20	6,800	85	65
West Virginia	218	26	5,668	55	55
Wisconsin	208	26	5,408	52	52
Wyoming	208	25	5,200	52	50

NOTE: Data are not available for the state of Michigan.

SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a).

Total Potential Benefit Amount

Another measure of UI benefit levels is the total potential benefit amount. It is calculated for an individual by multiplying weekly benefit amount by maximum potential duration.

Figure 10-3 illustrates variations in total potential benefit amount for workers with different hourly earnings. Because of state limits on the maximum total benefit amount, the average total potential amount across all states reaches a plateau of approximately $6,100, and remains constant for individuals with wages equal to or greater than approximately $16 per hour.

Weekly Replacement Rate

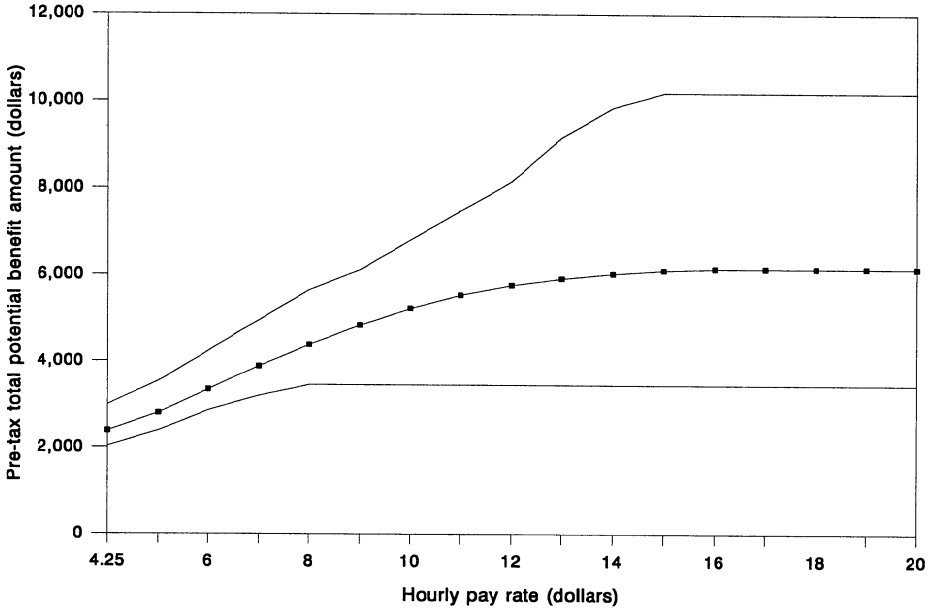
A comparison of weekly benefits to weekly wage, often called a replacement rate, allows the relationship of benefits to previous earnings to be considered. Dividing an individual's benefits by his or her previous wages over a comparable time period yields the percentage of previous wages that are replaced by the payment of UI benefits—the replacement rate for that individual.[2] (The general definition of the replacement rate used in this report is discussed in more detail in Chapter 9.)

The average replacement rate across all states declines as wages increase (see Figure 10-4). This pattern reflects the structure of the UI benefit system in most states, which often set their *maximum* weekly benefits at between one-half and two-thirds of the average earnings in the state.[3] As a result, workers with higher than average earnings receive the maximum weekly benefit amount, which is generally a smaller percentage of their weekly earnings. The average replacement rate is approximately 55 percent for minimum-wage workers, 50 percent for workers earning about $10 per hour, and 40 percent for workers earning about $15 per hour.

Duration-Adjusted Replacement Rate

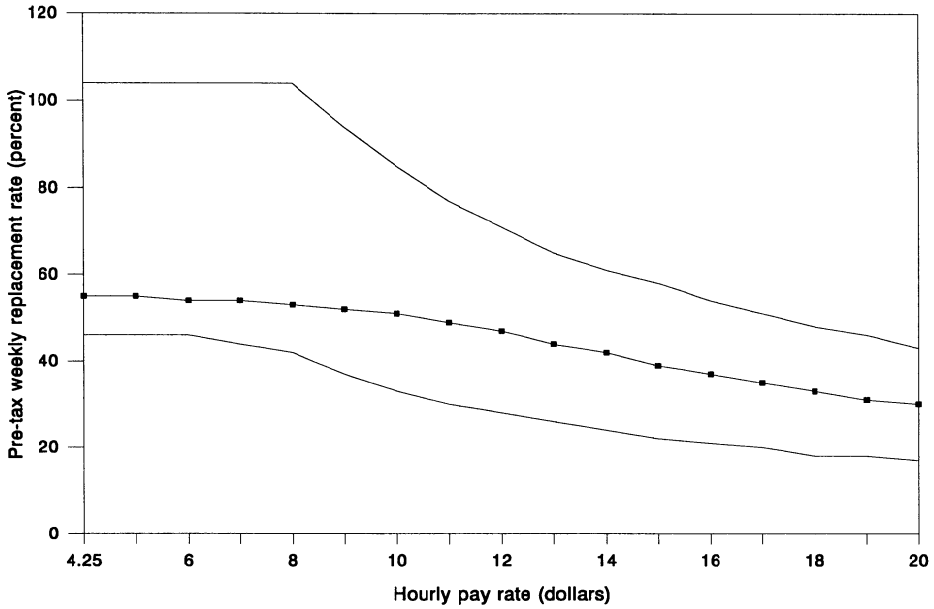
A replacement rate that takes duration into account provides a means of considering this rate over a time period greater than a week. The duration-adjusted replacement rate summarized below measures the maximum potential percentage of total wages earned in an average 26-week period that are replaced by total UI benefits.[4]

FIGURE 10-3. Total Potential Benefit Amounts for Single, Full-time, Full-year Workers at Various Wage Levels, All States, 1994



NOTE: The area between the solid lines represents the range of total potential benefit amounts across states; the marked line represents the average total potential benefit amount.
SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a).

FIGURE 10-4. Weekly Replacement Rates for Single, Full-time, Full-year Workers at Various Wage Levels, All States, 1994



NOTE: The area between the solid lines represents the range of weekly replacement rates across states; the marked line represents the average weekly replacement rate.
SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a).

While the average weekly replacement rate is similar to the average duration-adjusted replacement rate, the range within which state duration-adjusted replacement rates fall is considerably narrower than that of weekly replacement rates (see Figure 10-5). In particular, at low wage levels, the maximum state duration-adjusted replacement rate is much lower than the maximum weekly rate. This suggests that those states (such as Alabama and Washington) with relatively high weekly benefits for lower-wage workers often pay those benefits for fewer than 26 weeks.

Variations Among Full-Time and Part-Time Workers

Weekly Benefit Amount

As one would expect, weekly benefit amounts are typically lower for individuals who work part-time during a week (for example, 20 hours per week) than for full-time workers at the same wage rate (see Figure 10-6). These differences diminish at higher wage levels, as weekly benefit amounts approach and reach state maximum levels more quickly for full-time workers.

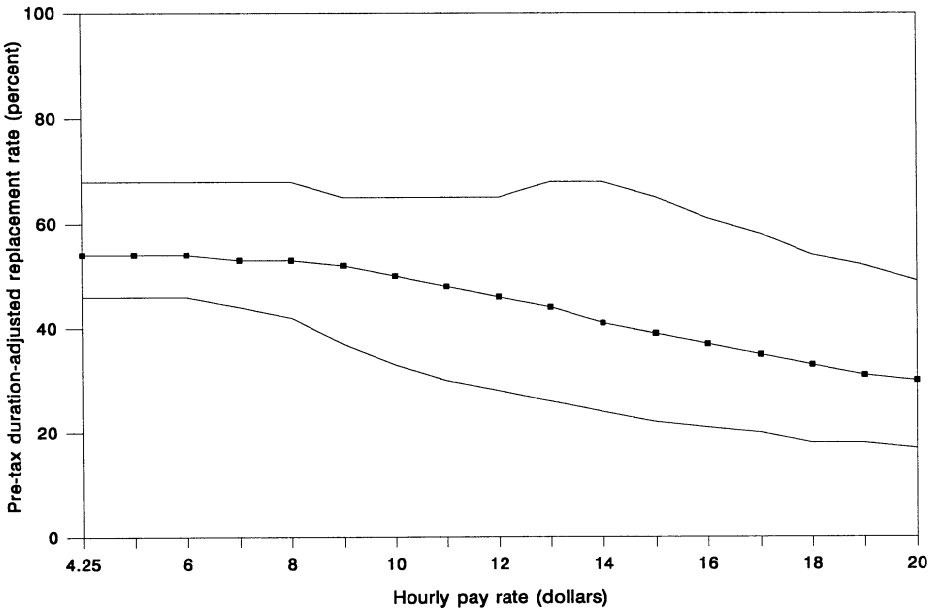
Total Potential Benefit Amount

Typically, average potential duration of benefits for part-time workers varies only slightly as work hours per week change. As a result, average total potential benefit amounts are determined almost exclusively by the weekly benefit amount and follow a similar pattern to the one described above (see Figure 10-7). As expected, therefore, full-time workers are eligible for a larger total benefit amount than part-time workers who earn the same hourly wages.

Weekly Replacement Rate

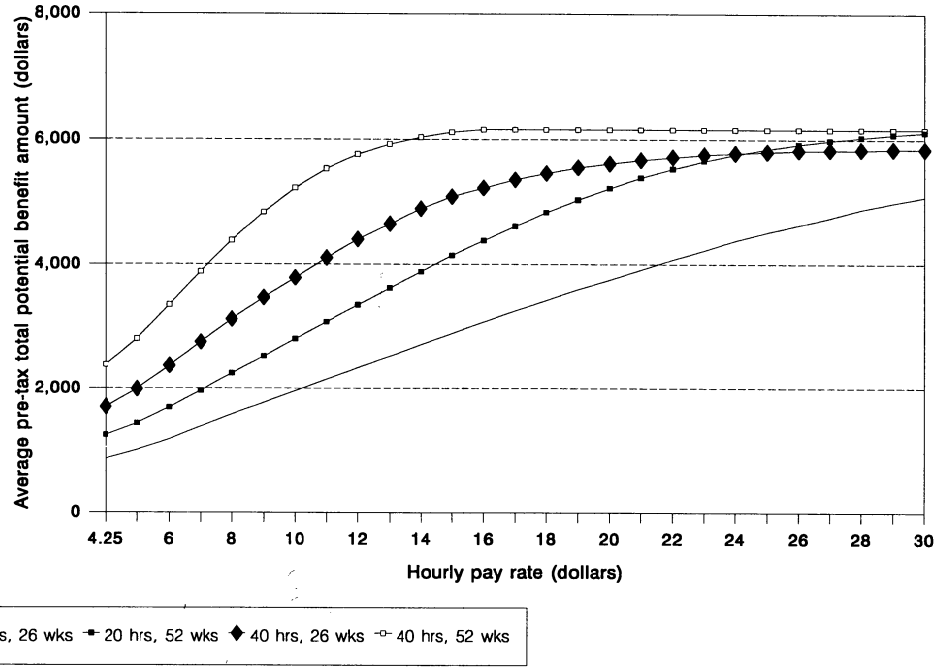
Weekly replacement rates are generally somewhat higher for part-time workers than for full-time workers earning comparable hourly wages. This is primarily because replacement rates are generally higher for individuals with lower total wages. A full-year worker earning $10 per hour and working full-time would have an average replacement rate of 51 percent, whereas the same individual working half-time would have an average replacement rate of 55 percent.

FIGURE 10-5. Duration-adjusted Weekly Replacement Rates for Single, Full-time, Full-year Workers at Various Wage Levels, All States, 1994



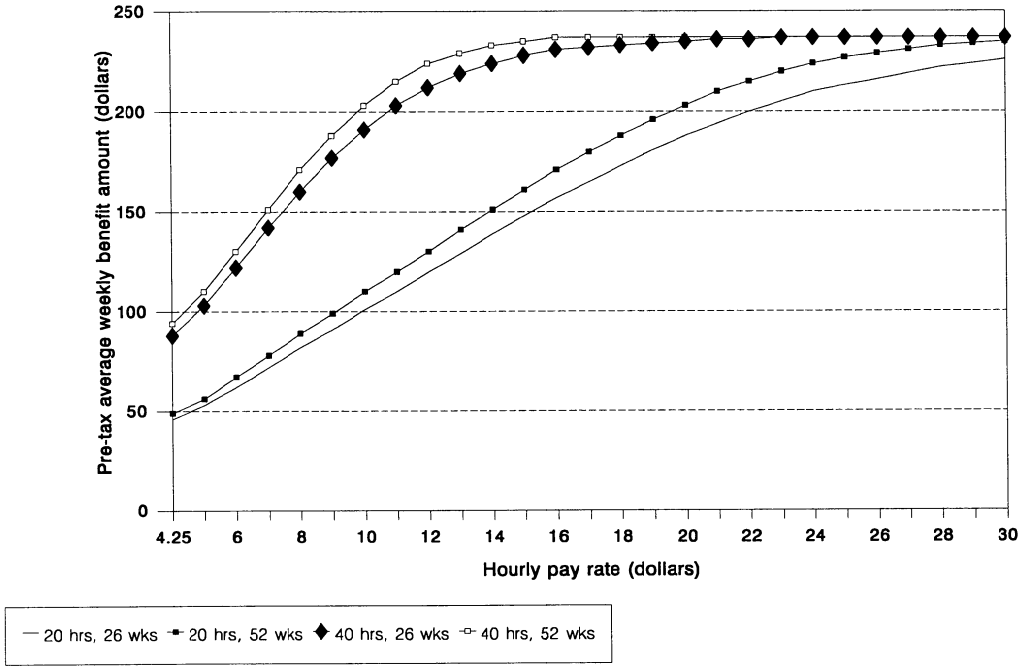
NOTES: The area between the solid lines represents the range of duration-adjusted weekly replacement rates across states; the marked line represents the average duration-adjusted replacement rate.
SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a).

FIGURE 10-7. Average Total Potential Benefits for Various Work Schedules, All States, 1994



SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a).

FIGURE 10-6. Average Weekly Benefit Amounts for Various Work Schedules, All States, 1994



SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a).

Because differences in total wages between full-time and part-time workers are higher at high hourly wages, the difference in weekly replacement rates also increases significantly at higher hourly wage levels. For example, among full-year workers earning $20 per hour, the average replacement rate would be 30 percent for a full-time worker and 51 percent for a half-time worker.

Variations Among Full-Year and Part-Year Workers

Weekly Benefit Amount

For part-time workers, there is little difference in average weekly benefit amount between comparable part-year (for example, 26 weeks of work) and full-year individuals (see Figure 10-6). Among full-time workers, a full-year worker earning $10 per hour would receive an average benefit of $203 per week, whereas a half-year worker would receive an average benefit of $191 per week (94 percent of the average weekly benefit amount for the full-year worker). This minimal difference disappears at higher wage levels.

Total Potential Benefit Amount

Because duration of benefits is often based partially on weeks of work, total potential benefits vary more than weekly benefit amounts (see Figure 10-7). A full-year worker earning $10 per hour would be eligible for an average total benefit amount of $5,225; a comparable half-year worker would be eligible for an average total of $3,784 (72 percent of the average total benefit amount for the full-year worker). This difference diminishes somewhat at higher wage levels.

Weekly Replacement Rate

There is no significant variation in weekly replacement rates between similar full-year and part-year workers (see Figure 10-6).

Variations Based on Distribution of Work Hours

Weekly Benefit Amount

Among many individuals who work the same number of *total* hours in a base period (except for those at particularly high wage levels), weekly

benefit amounts vary significantly. Individuals who concentrated all of their hours of work into a shorter number of weeks (particularly into two quarters of the base period) receive, on average, a higher level of weekly benefits than workers who worked shorter hours per week but more weeks in the base period (and thus, the same number of total hours).

For example, a worker who earned $10 per hour and worked for 1,040 hours in the base period would be eligible for an average weekly benefit amount of $191 if the work was distributed 40 hours per week in 26 weeks that fall within two calendar quarters. The same worker, however, would receive an average weekly benefit amount of $110 (only 58 percent of $191) if the work was distributed 20 hours per week for 52 weeks.

Total Potential Benefit Amount

Average total potential benefit amounts also vary considerably, depending on the distribution of the same number of hours of work. Again, most workers who worked more hours in concentrated periods receive higher total benefit amounts than workers with comparable hours spread over a longer period of time.[5]

For example, a worker earning $10 per hour would be eligible for an average total benefit amount of $3,784 if the work was distributed 40 hours per week for 26 weeks in two quarters. The same worker, however, would be eligible for an average total benefit amount of $2,801 (74 percent of $2,801) with the work distributed 20 hours per week for 52 weeks.

Variations Among Workers with Dependents

In the 13 states that use "dependent allowances," benefit levels and replacement rates may vary based on an individual's dependents (see Table 10-3). The method of accounting for dependents, as well as the actual impact of dependent allowances, varies considerably across these states.

Weekly Benefit Amount

On average, a full-time, full-year single worker earning minimum wage would receive $93 per week in UI benefits in the 13 states with dependent allowances. A comparable worker with a nonworking spouse[6] and two dependent children would receive an average of $114 per week in those states. For workers earning $10 per hour, the average weekly benefit amounts would be $206 and $234, respectively.

TABLE 10-3. Comparison of Replacement Rates for Single Individual and Typical Family in States with Dependent Allowances, 1994

State	Rate for Full-time, Full-year Worker Earning $4.25/Hour		Rate for Full-time, Full-year Worker Earning $10.00/Hour	
	Single	Family	Single	Family
Alaska	63%	91%	51%	63%
Connecticut	50	68	50	58
District of Columbia	50	56	50	53
Illinois	49	65	50	65
Indiana[a]	58	58	43	48
Iowa	56	65	53	60
Maine	55	73	48	56
Massachusetts	50	79	50	63
Michigan	57	64	54	60
New Jersey	60	69	60	69
Ohio[a]	50	50	50	50
Pennsylvania	55	60	53	55
Rhode Island	60	72	60	66
Average	55	67	52	59

NOTE: "Family" is defined as containing an unemployed individual, a nonworking spouse, and two dependent children.

SOURCE: ACUC calculations using U.S. Department of Labor (1994a).

[a] In Indiana, only individuals with a high-quarter wage of at least $3,999 qualify for the dependent allowance. Thus, a person making $4.25 per hour does not qualify. Although Ohio has a dependent allowance, it only increases the maximum benefit amount. It does not affect the two individuals in the example above because they qualify for less than the maximum benefit amount.

Total Potential Benefit Amount

On average, a full-time, full-year single worker earning minimum wage would be eligible for an average total potential benefit amount of $2,441 in the 13 states; a comparable worker with the family of four described above would receive an average of $2,911 in those states. For workers earning $10 per hour, the average total potential total benefit amounts would be $5,425 and $6,172, respectively.

Weekly Replacement Rate

On average, a single worker earning minimum wage would have 55 percent of weekly wages replaced in these 13 states (see Table 10-3). The same

worker in the family described above would have an average weekly replacement rate of 67 percent, an additional 12 percent of previous income replaced per state, on average. The increase in replacement rate for a worker with a family is as high as 29 percentage points in Massachusetts and as low as 0 percentage points in Indiana and Ohio.[7]

A full-time, full-year worker who earns $10 per hour would have replacement rates of 52 percent and 59 percent, respectively, an additional 7 percent of previous income replaced per state, on average. The increase in the replacement rate is as high as 15 percentage points in Illinois, and as low as 0 percentage points in Ohio.

NOTES

1. Unless otherwise noted, the source of all statistics and figures cited in this chapter is a series of calculations performed by the ACUC staff based on state laws related to eligibility, benefit levels, and benefit durations. See Chapter 7, note 3, for a more complete discussion of the methods used in making these calculations.

2. The average replacement rates reported in this chapter are based on pre-tax benefits and pre-tax earnings. They are the unweighted averages of all of the state replacement rates for a given hypothetical individual in those states in which that individual is eligible for benefits.

3. See Chapter 9 for additional information on the setting of maximum benefit amounts.

4. The duration-adjusted replacement rate is defined as an individual's weekly replacement rate times a duration index. The duration index is defined as the individual's maximum potential number of weeks of benefits divided by 26. (This is the standard maximum benefit duration in all states except Massachusetts and Washington, which pay up to 30 weeks in benefits.) Mathematically, this rate is the same as the ratio of total potential benefits to the wages previously earned over an average 26-week period. Because of complications in calculation, the duration-adjusted replacement rate is only reported and analyzed for individuals who were employed for a full 52 weeks in the base period.

If an individual qualified for 26 weeks of benefits, the duration-adjusted replacement rate would be the same as the weekly replacement rate, since that individual's wages over a 26 week period would be replaced at that weekly rate for all 26 weeks. If, alternatively, an individual qualified for a maximum of 13 weeks of benefits, the duration-adjusted replacement rate would be one-half of the weekly replacement rate (since that individual's wages over 26 weeks would only be replaced by 13 weeks of benefits at that weekly rate).

5. This trend diminishes at higher wage levels (approaching $24 per hour), and actually reverses after $24 per hour, with workers at those levels who have more weeks

chosen to use the federal agricultural standard in determining state coverage, 8 states elected to provide more liberal coverage of agricultural workers than is required by federal law.[3] A large percentage of the nation's farm workers, but a smaller percentage of total farm employers, are located in these 8 states, primarily in the major farm labor states of California, Florida, and Texas. California, which includes 25 to 35 percent of the nation's farm workers, requires almost universal coverage of agricultural workers by covering them on the same basis as workers in all other industries.[4]

Many of the 8 states chose to expand their coverage around the time of the implementation of the 1976 amendments. In California, the United Farm Workers union was the force driving the expansion. In other states, the decision was generally a response to the belief that some measure needed to be taken to address the problems of farm workers.[5]

Potential Expansion of Agricultural Coverage

In considering the potential expansion of UI coverage to agriculture on the same basis as all other industries, a number of factors should be taken into account. First, past research has suggested that costs to the system would increase, although the increase would be relatively small, given the size of the UI system.[6] Rough approximations suggest that additional benefit costs resulting from a national expansion of agricultural coverage to the same standards used in all other industries could be between 1 and 2 percent of current total UI benefits paid.[7]

Second, a large percentage of the nation's agricultural workers is already covered either under federal large farm standards or through expanded state agricultural coverage.[8] Thus, a federally mandated expansion of coverage would affect only a minority of the nation's farm workers (that is, those working in states that do not have substantial agricultural employment).

Third, UI coverage for agricultural workers in California has increased the income of an average farm worker there by approximately 7 percent. This suggests that UI has a significant effect on the overall earnings of covered farm workers (Martin 1994).

Finally, a number of administrative and compliance problems complicate the issue of farm worker coverage. One particular problem results from provisions in FUTA that allow "farm labor contractors" (or "crew leaders") to be classified as employers for UI purposes. Worker advocates

Today, certain elements of the labor market also present a new set of challenges for laws that address coverage and taxation in the UI system. For example, the increased use of labor contractors and employee leasing firms has created substantial new problems in enforcing the intent of existing UI laws and regulations. Further, efforts by some employers to avoid the payment of UI taxes have increasingly taken advantage of the few remaining exceptions to universal coverage. (These issues are discussed in Chapter 12.)

COVERAGE

Self-Employed Workers

Federal law does not require that self-employed individuals be covered under UI. Generally the self-employed are excluded from state coverage not for reasons of principle, but for reasons of practicality; coverage of the self-employed is considered infeasible because of the extreme difficulty in determining what income they have lost and whether they are employed or unemployed in any given week (U.S. Department of Labor 1994a). California, however, does have provisions that allow self-employed individuals to apply for self-coverage under UI.

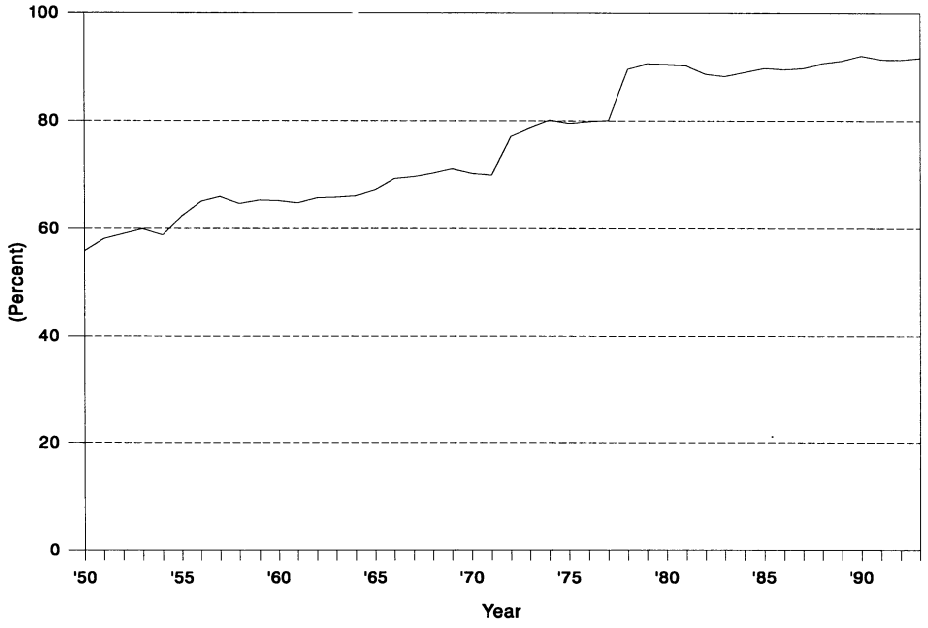
Particular coverage problems may arise for workers employed in jobs that have some elements of an employer-employee relationship and some elements of self-employment. Difficulties in classification, as well as intentional misclassification of jobs, have increased in recent years.[2]

Workers on Small Farms

Agricultural workers are the largest category of wage and salaried employees who are not almost completely covered by the UI system. Indeed, before UI amendments passed in 1976, agricultural labor was excluded completely. Federal law implementing these amendments went into effect in 1978, requiring coverage of agricultural workers on larger farms. Such farms meet at least one of two criteria: (1) they paid cash wages of $20,000 or more for agricultural labor in any calendar quarter during the current or preceding calendar year, or (2) they employed 10 or more workers for at least one day in each of 20 different weeks during the current or preceding calendar year.

In effect, the 1976 amendments represent a federally imposed minimum coverage standard for the agricultural sector. While most states have

FIGURE 11-1. Annual Covered Employment as a Percentage of Total Employment, 1950-1993



SOURCES: Council of Economic Advisors (1994) and U.S. Department of Labor, Bureau of Labor Statistics (1994b).

11 / Coverage and Federal Taxation: Exceptions

SINCE THE INCEPTION OF THE SYSTEM of Unemployment Insurance, the percentage of the work force covered by the program (that is, the percentage of jobs in which an employer pays UI taxes on a worker's wages) has gradually increased over time (see Figure 11-1). The most recent significant expansions in coverage were legislated in the 1970s, when a number of groups—including state and local government employees, many household workers, employees of many small businesses, and workers on large farms—were covered for the first time. In almost all industries, federal standards are in place that require coverage on all work for employers who pay wages of $1,500 or more in any calendar quarter.[1]

Thus, UI coverage today is nearly universal, extending to more than 90 percent of all civilian employment in the United States (and to almost all wage and salaried workers). Only two significant exceptions remain. Self-employed individuals and agricultural workers on small farms are generally not covered under UI. These exceptions are discussed in the following sections.

Concomitant with increased coverage has been an increase in the number and types of employers who pay federal UI taxes. Generally, when coverage is expanded to a given category of workers, employers are also required to pay FUTA taxes on those workers. In addition to the two groups of uncovered workers, there are two additional exceptions to universal federal UI taxation of employers: state and local government employers and nonprofit employers are exempt from FUTA taxation. These exceptions are also discussed below.

of work receiving a slightly higher average total potential benefit amount. Generally, this is a result of the combination of state caps on weekly benefit amounts and higher durations for workers with more weeks of work.

6. Not all of the 13 states count a nonworking spouse as a dependent.

7. The dependent allowances in Indiana and Ohio do not affect this worker because they serve only to increase the maximum potential total benefit amount in those states. Because this hypothetical worker is not at the maximum benefit level, the existence of a dependent allowance provision has no effect.

report that this contributes to widespread fraud and abuse within the system, and suggest that it also causes some eligible workers to be denied UI benefits (see, e.g., Norton 1994). These issues are discussed in additional detail in Chapter 12. The large number of unauthorized agricultural workers also complicates the issue of coverage.

FUTA TAXES ON EMPLOYERS

Nonprofit Employers

Nonprofit employers are also exempt from the FUTA tax. This means that they do not pay for any of the administrative costs of the UI system, nor do they contribute to the 50 percent of the Extended Benefits program financed by the federal government.[9] In effect, therefore, nonprofit employers are subsidized on these costs by the FUTA taxes that are paid by other employers.

The financial impact of the FUTA exemption for nonprofit organizations is substantial. In 1992, there were more than 50,000 nonprofit employers in the United States. These establishments employed more than 5.7 million employees.[10] Removing the FUTA exemption for nonprofit organizations would have resulted in approximately $300 million in additional annual FUTA revenues.[11]

State and Local Government Employers

Although UI coverage was expanded in the 1970s to include state and local government employees, state and local government units also remain exempt from the FUTA tax. This treatment is the result of a constitutional prohibition on federal taxation of state governments or their subdivisions.[12]

NOTES

1. Thirty-three states have adopted this federal definition of employment. The other states all use even broader definitions. U.S. Department of Labor (1994a).

2. For additional information on misclassification and other compliance issues, see Chapter 12.

3. States with more liberal coverage include California, the District of Columbia, Florida, Minnesota, Puerto Rico, Rhode Island, Texas, and the Virgin Islands.

4. For farm employers, California requires coverage of all work performed if wages paid are greater than $100. The same standard applies to California employers in all other industries.

5. Telephone conversation with Dr. Philip Martin, University of California-Davis, August 23, 1994.

6. Telephone conversation with Dr. Philip Martin, University of California-Davis, August 23, 1994.

7. This figure represents the rough estimate of the additional cost of extending agricultural coverage to all farm workers in those states that have not yet extended coverage. The figure is estimated by extrapolating the ratios in California, and applying them to the rest of the nation. Overall, however, it is extremely difficult to gauge the number of farm workers in the United States, the extent of unemployment among those workers, or the extent to which currently uncovered workers would qualify for and take advantage of the UI system if they were covered.

Finally, it should be noted that in California, agriculture is a negative reserve industry. For example, in 1992, approximately $350 million in UI benefits were paid to agricultural workers, but only approximately $150 million were collected in UI taxes from agricultural employers. Martin (1994).

8. There are no accurate estimates of the percentage of the overall agricultural work force that is covered by the UI system.

9. Such employers do, however, reimburse the 50 percent state share of any Extended Benefits that their former employees receive.

10. Unpublished calculations from the U.S. Department of Labor, Bureau of Labor Statistics. These numbers were derived from the Covered Employment and Wages (ES-202) Program. They include only those nonprofit employers that have chosen to reimburse state UI trust funds for costs, rather than pay state UI taxes. This suggests that the number of nonprofit employers that are exempt from the FUTA tax may be slightly larger, because some nonprofits may choose to pay state UI taxes.

11. This is an estimate based on calculations performed by ACUC staff using unpublished data from the U.S. Department of Labor, Bureau of Labor Statistics.

12. On the state program level, state and local governments are also given the option of financing state unemployment benefit costs by reimbursing state trust funds for benefits charged, rather than participating in the experience-rated UI tax system.

12 / Coverage and Federal Taxation: Compliance Issues

THE MISCLASSIFICATION OF WORKERS is a highly charged issue that has received a great deal of attention in recent years. For purposes of the Unemployment Insurance system, workers who are classified as independent contractors are considered self-employed; such workers, therefore, are not covered under the Unemployment Insurance program in most states. In addition, many employers now employ workers through contracts with other entities such as employee leasing companies and farm labor contractors. Workers hired under such an arrangement often have poorly defined employment relationships with multiple parties, creating potential complications with regard to their eligibility for UI benefits. The problems associated with worker classification issues extend far beyond the UI system, however, affecting federal revenue collection, employee protection laws, and other labor matters.

This chapter discusses the issue of worker misclassification generally, its impact on tax revenues from the Federal Unemployment Tax Act (FUTA), and its impact on worker eligibility for UI. It also addresses the issue of employer liability for payroll taxes in cases of multiparty employment relationships, including those that exist in the employee leasing and farm labor contracting businesses.

MISCLASSIFICATION OF WORKERS

Definition of Independent Contractors

For federal tax purposes, including those of FUTA, the classification of a worker as an employee or an independent contractor is based in common

law. Under common law, a worker is an employee if the user of the worker's services has the *right* to direct and control the manner and details of the worker's performance. Twenty common law factors, as determined by the Internal Revenue Service (IRS), provide the criteria for determining "control."[1] No single factor is determinative, many factors are subjective, and the relative importance of some factors varies across individual cases.

For state tax purposes, states can make their own distinctions between employees and independent contractors, and most use a broader definition of employee than the common law test. A majority of the states use the "ABC test," according to which any individual who performs a service for remuneration is considered to be an employee unless *each* of the following criteria are met: (a) the individual is free from direction and control over performance of the work; (b) the service is performed either outside the usual course of the business for which it is performed or is performed outside of all places of business of the enterprise for which it is performed; and (c) the individual is customarily engaged in an independent trade, occupation, profession, or business. The remaining states use common law or some part of the ABC test to define the employer-employee relationship.

Scope of the Misclassification Problem

Misclassification of workers may be intentional or unintentional. The ambiguities in defining the employment relationship leave room for differing opinions on classification decisions and for honest mistakes. Some employers, however, intentionally misclassify employees as independent contractors. By classifying workers as independent contractors, employers can avoid payment of payroll taxes (including Social Security and state and federal UI), the cost of health care and other employee benefits, and additional expenses associated with tax and labor law compliance. Thus, companies that misclassify workers can cut costs and gain a competitive edge over businesses that comply with the law.

Number of Misclassified Workers

Although a number of reports have attempted to estimate the prevalence of misclassified workers, doing so has proven to be quite difficult.[2] Most estimates of the number of misclassified workers are based on information reported by employers and do not include workers of employers who do not comply with all employment tax reporting requirements. An IRS study

using 1984 data finds that one out of seven employers misclassified workers as independent contractors and that more than 3 million workers were misclassified (Internal Revenue Service 1989).[3] Coopers and Lybrand (1994) estimate that the number of misclassified workers in nonagricultural, nonmining sectors increased 24 percent between 1984 and 1994, from 3.3 million to 4.1 million workers; they predict that more than 5 million workers will be misclassified by the year 2005.

The Coopers and Lybrand study also reports that misclassification is particularly prevalent in the construction and service sectors (see Table 12-1). The IRS survey finds that the share of misclassified workers in these industries is nearly two times the share of misclassified workers overall.[4] The report also revealed that employers who misclassified workers tended to be small firms with fewer than 100 workers. This suggests that, as technological capacity improves and tolerance of work at home and "telecommuting" increases, classification issues may increase in other industries.

TABLE 12-1. Percentage of Employers with Some Misclassified Workers, by Industry

Industry	Percent of Total
Construction	19.8
Finance, Insurance, Real Estate	19.3
Mining	18.6
Agriculture	16.7
Manufacturing	15.8
Services	15.4
Government	12.6
Not Otherwise Classified	12.6
Transportation	11.2
Trade	9.6
Total	13.3

SOURCE: Internal Revenue Service, quoted in Coopers and Lybrand (1994, 8).

Lost Revenue

Misclassification of workers results in lost tax revenue for federal and state governments. Losses occur as a result of nonpayment of payroll taxes by

employers, as well as from deduction of business expenses and underreporting of income by workers designated as independent contractors. An IRS employer survey found that misclassification cost the federal government $3.5 billion in 1984: this included $1.7 billion lost in Social Security taxes, $1.6 billion lost in income taxes that were not withheld, and $196 million lost in FUTA taxes (Internal Revenue Service 1989). Coopers and Lybrand (1994) project that misclassification will reduce federal tax revenues by between $2.5 billion and $4.7 billion annually between 1996 and 2004.

Compliance Efforts

The IRS has traditionally relied on third-party sources (such as workers who complain about their classification, employers who compete with noncompliant businesses, and referrals from other federal and state agencies) for leads that will help identify cases of misclassification. It would be possible, however, to pursue a more systematic approach to identifying noncompliant employers (U.S. General Accounting Office 1989).

Studies have shown that independent contractors who receive all of their income from one employer are likely to be misclassified.[5] A business that uses independent contractors is required to report annual payments of $600 or more to the IRS on an information return (Form 1099-Misc).[6] Consequently, by matching information returns and income tax returns of independent contractors, it is possible to investigate those businesses that are most likely to be misclassifying workers.

In addition, IRS studies have shown that independent contractors are more likely than are employees to underreport income and overstate expenses.[7] A General Accounting Office study concludes that efforts to increase compliance with requirements for filing information returns would both increase revenues collected and provide information that would help identify misclassified workers.[8]

Limits on Enforcement

IRS authority to correct the misclassification of independent contractors and assess back taxes is limited by Section 530 of the Revenue Act of 1978.[9] Section 530 grants "safe harbor" protection to employers who can show "reasonable basis" for classifying their workers as independent contractors.

Firms that fall under the "safe harbor" protections are not assessed penalties for misclassified workers and are not required to reclassify them. Consequently, these employers can continue to treat their workers as independent contractors indefinitely.

The IRS survey found that, in 1984, safe harbor status protected 9 percent of the approximately 3 million workers who were misclassified, and it protected 14 percent of their $16 billion in wages.[10] The safe harbor provision also prevents the IRS from issuing guidelines to clarify the common law definition of employee. Section 3509 of the Internal Revenue Code, enacted by Congress in 1982, also constrains revenue collection, by limiting employment tax liabilities for businesses that did not qualify for Section 530.[11]

MISCLASSIFICATION AND UNEMPLOYMENT INSURANCE

The UI system frequently uncovers misclassified workers when they apply for and are denied UI benefits because employment taxes have not been paid on their behalf. In 1990, about 95 percent of the 14,000 requests for reclassification received by the IRS came from workers in this situation (*Daily Labor Report* 1991). These UI claimants are ineligible for benefits until the state completes an investigation. If the investigation shows that the workers were, in fact, employees, then they receive benefits and the state attempts to collect unpaid taxes from the employer.

The misclassification of workers as independent contractors directly affects the UI system, since federal and state UI trust funds lose revenue and benefits are denied to claimants. Burgess et al. (1994) estimate that employers failed to report 11.1 million UI-eligible workers[12] and $70.6 billion in total wages to UI state agencies annually. The study estimates that misclassification and nonreporting cause as much as $728 million to be lost in UI tax revenue each year.

The study finds that a substantial portion of the misclassification of workers is systematic, indicating that at least some firms weigh the costs and benefits of tax evasion when deciding on their reporting strategy. The key predictors of a noncompliant firm are its UI tax rate, turnover rate, and the percent of its work force paid as independent contractors. The study produces profiles that can be used to target firms for audit, to increase collection of UI taxes, and to encourage employers' compliance by increasing the risk of audit.

MULTIPARTY EMPLOYMENT RELATIONSHIPS

The practice of misclassifying workers as independent contractors is one way for firms to avoid the responsibility and associated costs of being an employer. Another method is to contract out for workers. In situations involving a "host" employer as well as a contractor, the difficulty of classification is compounded by ambiguity in determining who is the employer. Employee leasing and farm labor contractors are two areas where third parties in the employer-employee relationship have created uncertainty about payroll tax liability.

Employee Leasing

Employee leasing firms manage employee services for client businesses in order to relieve them of personnel-related administrative burdens. In general, an employer contracts with a leasing company and releases some or all of its employees to the leasing company, which then leases the workers back to the original employer. The leasing company pays the employees' wages, payroll taxes, and benefits, while all other aspects of the workers' jobs remain the same. Leased employees differ from temporary workers and contract employees in that they usually have long-term, full-time jobs and receive full benefits. In short, an employee leasing firm takes over the work force of a client employer but does not provide the workplace, does not supervise workers, and does not have the authority to discharge workers (National Staff Leasing Association 1993). The employment relationship among the leasing firm, the client, and the worker is complex. Frequently the client firm maintains supervisory authority while the leasing firm controls payment and wages—producing a situation in which control is divided. Often, employee leasing firms assume responsibility for payment of UI and other payroll taxes. In some cases, however, neither party claims the role of employer, and the workers are misclassified as independent contractors. The use of common law factors can produce different decisions regarding the proper classification of workers in employee leasing arrangements. Further, federal guidance, state policies, and court decisions on the issue are often vague and inconsistent.

Estimates on the number of employee leasing firms and leased employees vary, but most agree that the numbers are growing. One report suggests that the number of employee leasing firms increased from 98 firms in 1984 to 1,300 in 1991 (Resnick 1992). The National Assoc-

iation of Professional Employee Organizations identified more than 2,100 employee leasing firms in 1994 (O'Brien 1994).

Impact on the Unemployment Insurance System

The practice of employee leasing is of greater importance to the states than to the federal government because state UI taxes are experience rated, and are therefore dependent on the firm that pays payroll taxes. States have addressed the employee leasing issue in a variety of ways.[13] By statute, regulation, or practice, some states recognize the employee leasing company as the employer for state unemployment tax purposes. Other states have taken the position that, in the absence of convincing evidence to the contrary, the client company is liable. Still others have taken no action at all.

KRA Corporation and the Urban Institute are currently conducting a comprehensive review of the employee leasing industry and its impact on the UI system (Cook et al. 1994a). Their interim report identified the following areas of concern with regard to the impact of employee leasing on UI trust funds:

- The leasing firm's tax rate may not reflect the experience rating of the client firm. Shifting employees from a client firm with a high experience rating to a leasing firm with a lower experience rating will reduce some firms' taxes, as well as total state tax revenues.

- In cases in which employees work for more than one employer during a year, all employers are required to pay payroll taxes on the taxable wage base. When employees of a leasing firm are separated from the client firm and reassigned to another client, however, the leasing firm remains the sole employer for payroll tax purposes. Consequently, contributions to the UI trust funds are reduced.

- When employee leasing companies' tax rates increase as a result of experience rating, they may shift employees through successive corporate entities to avoid paying increases in their state UI taxes.

- Financial failure of the employee leasing company may leave delinquent payroll taxes and may result in ineffective charges of UI claims.

Farm Labor Contractors

The question of identifying the employer responsible for UI taxes is also a problem in the agricultural industry. Frequently, farm labor contractors, also called "crew leaders," coordinate groups of agricultural workers and provide workers for farm operators. Federal law provides clear guidance regarding the federal UI tax obligations of the parties when a farm labor contractor is involved. Farm labor contractors are liable for the FUTA tax for laborers working under their direction if one of the following criteria is met: (1) the crew leader is certified under the Farm Labor Contractor Registration Act of 1963, or (2) all workers furnished by the crew leader operate or maintain mechanized equipment provided by the crew leader. If these criteria are not met, the farm operator is liable for the FUTA tax (Runyan 1992).

Regardless of whether they are liable as employers, crew leaders are required to maintain records, report employment and earnings data, report money withheld from workers' pay for any purpose, and report required payroll taxes. They are also required to provide the farm operator and crew members with this information.[14]

Enforcement, however, remains difficult. The problem with regard to farm labor contractors is related primarily to direct noncompliance with taxation and reporting requirements. Worker advocates report widespread abuse and noncompliance with FUTA regulations by farm labor contractors, which ultimately can result in worker ineligibility for benefits when they apply. This has led critics to propose that farm operators should be treated as employers in all cases. In this situation, compliance with legal requirements would be more complete, because farm operators can be more readily located when information is needed to process or investigate UI claims. Farm labor contractors are frequently quite difficult to locate.[15]

Opponents of changing the law to make farm owners or operators liable for UI purposes argue that the employer for FUTA purposes should be the same entity that is the employer for other purposes. They also argue that redefining the employer-employee relationship to improve UI compliance would be difficult, because farmland is frequently owned and operated by different entities (Holt 1994).

NOTES

1. There are no specific rules regarding the number of criteria that must be met in order for a worker to be considered an employee. The 20 IRS common law factors are as follows: (1) comply with employer's instructions about the work; (2) receive training from or at the direction of the employer; (3) provide services that are integral to the employer's business; (4) provide services that must be rendered personally; (5) hire, supervise, and pay workers for the employer; (6) have a continuing working relationship with the employer; (7) follow set hours of work; (8) work full-time for an employer; (9) do their work on the employer's premises; (10) do their work in a sequence set by the employer; (11) submit regular reports to the employer; (12) receive payments of regular amounts at set intervals; (13) receive payments for business and/or traveling expenses; (14) rely on the employer to furnish tools and materials; (15) lack a major investment in facilities used to perform the service; (16) cannot make a profit or suffer a loss from their services; (17) work for one employer at a time; (18) do not offer their services to the general public; (19) can be fired by the employer; (20) can quit work at any time without incurring liability. U.S. General Accounting Office (1989).

2. Coopers and Lybrand (1994), U.S. General Accounting Office (1989), U.S. House of Representatives (1990, 1992a,b).

3. The IRS Strategic Initiative on Withholding Noncompliance surveyed approximately 3,000 employers in 1986 and 1987. Responses were based on 1984 data.

4. In its review of previous studies, Coopers and Lybrand (1994) reports that the IRS survey results showed that about 2 percent of employees in the study were misclassified, but that in the construction industry and service sectors the share of misclassified workers was as high as 3.5 percent. These two sectors accounted for more than 25 percent of all employers and employees involved in misclassification.

5. The U.S. General Accounting Office identified more than 190,000 workers classified as independent contractors who received all of their income from one of 32,000 employers during 1985. Interviews with a random sample of 408 of these employers showed that about 38 percent may have misclassified workers as independent contractors. Detailed examinations of 95 of these employers confirms that 92 had misclassified workers. U.S. General Accounting Office (1989).

6. A business that fails to file an information return can be penalized $50 by the IRS.

7. This difference, however, narrows in cases where businesses report payments to contractors on information returns. IRS data show that independent contractors report 97 percent of the income that appears on information returns. Without returns, contractors report only 83 percent of income. See U.S. General Accounting Office (1992c).

8. Some argue that the enforcement emphasis on misclassification is misguided, given that it results in a tax loss of $2 billion a year, while underreporting and failure to report income by the self-employed result in a tax loss of more than $20 billion. See U.S. House of Representatives (1992b).

9. Section 530 was originally enacted as a response to complaints from the business community about overly aggressive IRS reclassification efforts and large tax assessments and penalties. It was intended to be a 1-year protection while controversies over classification were resolved. In 1982, it was made permanent.

10. "Reasonable basis" can include long-standing industry practice, past IRS audits that did not raise classification problems (including audits not made for employment tax purposes), or judicial precedent such as IRS rulings (Internal Revenue Service 1989).

11. Section 3509 limits the liability to 1.5 percent of wages paid to misclassified workers and 20 percent of the workers' share of Social Security taxes. The percentages double if businesses do not file information returns. In either case, a business pays 100 percent of its share of Social Security tax.

12. This estimate is significantly larger than estimates of misclassified workers mentioned previously because it refers to *all unreported* workers—not only to *misclassified* workers.

13. The Interstate Conference of Employment Security Agencies (ICESA) and the Louisiana UI Service have surveyed states to determine their policies regarding employee leasing. Examples of state action include the following: Florida requires each employee leasing firm doing business in the state to be licensed as an employee leasing firm. Texas passed a staff leasing licensing act that recognizes the staff leasing firm as the employer, and polices the industry to ensure compliance with all regulations and statutes governing labor laws. Arkansas and Oklahoma have bonding provisions to cover loss of UI taxes when employee leasing firms go out of business (Murrie 1993).

14. This treatment is consistent with the labor laws covering migrant and seasonal workers. The Migrant and Seasonal Agricultural Worker Protection Act (MSPA) of 1982 provides farm workers with protections concerning wages, working conditions, and work-related conditions. It also requires farm labor contractors to register with the U.S. Department of Labor and to assure necessary protections for farm workers. The MSPA holds the farm labor contractor liable for all of its provisions.

15. Booth (1980), and Norton (1994).

13 / Reemployment: Incentives for the Unemployed

THE MOST FUNDAMENTAL PROBLEM that labor market policy must address is that many workers' earnings are insufficient to provide an adequate standard of living for their families. This problem has two potential sources—either workers' hourly wage rates are low and/or their number of work hours is limited.

Identifying which of these two factors is the more important reason for low earnings is critical to the design of effective policy. If the low level of wages is the primary problem, then the solution would be either an increase in the minimum wage or an income redistribution scheme that taxes high-income individuals and transfers that revenue to low-income individuals. If workers' inability to work enough hours, or even any hours, is the primary problem, however, then the solution would be either an expansionary macroeconomic policy or active labor market policy.

While income maintenance remains an important objective of the Unemployment Insurance system, there is growing interest in using some of the funds available through the UI system to encourage more rapid reemployment of unemployed individuals. Thus, this chapter focuses on the second potential source of low income—limited work hours as a result of either underemployment or unemployment—and those financial incentives that may help improve the situation.

Three types of financial incentives could be used to facilitate employment, either as part of the UI system, or as a complement to it. These incentives would affect one of the following labor market factors: (1) the supply of labor, by increasing the intensity with which an unemployed

individual searches for work and/or by affecting the wage rate at which a job would be accepted; (2) firms' demand for workers and/or their willingness to provide education and training for workers; or (3) the process of matching workers with job openings. Each of these three categories is discussed in the sections that follow.

POLICIES AFFECTING THE SUPPLY OF LABOR

Reemployment Bonuses

A reemployment bonus is an offer of a bonus payment that would be made to an unemployed individual when he or she accepted a job offer and met other qualifying conditions.[1] The purpose of the bonus is to encourage more rapid reemployment, thereby lowering the overall unemployment rate. The bonus can be designed so that the amount of the payment would decrease as the length of time that an individual was unemployed increased. Alternatively, the amount can remain constant for a specified period of time and then expire. In either case, by increasing the implicit cost of postponing the point at which a job is accepted, a reemployment bonus may give unemployed individuals an incentive to search for jobs more intensively and to accept jobs that they might otherwise refuse.

Essentially, reemployment bonuses pay people to leave the condition of unemployment. Thus, they provide a mechanism for distinguishing those individuals who are in some sense voluntarily unemployed from those who are involuntarily unemployed. If a fairly modest payment could induce an individual to search more intensively for work and/or to accept a job offer that might otherwise be declined, that individual could be regarded as being voluntarily unemployed. If the payment is inadequate to induce such a response, however, the likelihood increases that the individual is involuntarily unemployed.

Over the past decade, a number of social experiments have been conducted on the reemployment bonus concept. In these experiments, UI recipients were randomly assigned either to the "treatment" group that was eligible for a reemployment bonus as an alternative to their normal UI benefits, or they were assigned to the "control" group that received only their normal UI benefits.[2] Both groups were then followed to assess the effect of the reemployment bonus offer on the speed with which they found jobs, as well as the wage rate of the jobs they ultimately accepted.

The results from these experiments indicate that reemployment bonuses do, indeed, have the expected effect. Although only 7 to 22 percent of

those who were potentially eligible for the bonuses actually received them, the average length of unemployment among the *entire* group was reduced approximately one-half week to 1 week.[3] The experiments produced no evidence that the bonuses resulted in any reduction in the wage rate of the job that was accepted. Taken together, these findings indicate that the bonuses operate primarily through increasing the intensity of individuals' job search efforts, rather than by inducing the unemployed to accept lower-paying jobs. The low rate of bonus receipt, however, indicates that more intensive job searching was used by and was effective for only a minority of the group.

While there was variation in the results of the reemployment bonus experiments, the results generally indicate that reemployment bonuses yield net benefits to claimants. From the perspective of society or government, however, the results were more mixed. Overall, the results suggest that reemployment bonuses may be a cost-effective means for increasing employment by a modest amount among those individuals who are offered the bonus.

Experiments have not been able, however, to assess the degree to which the reemployment bonuses result only in a re-ordering of the unemployment queue. To the extent that those who receive the bonuses simply displace other unemployed individuals who would have otherwise found a job, the experiments overstate the effect that the bonuses would have if offered on a broad scale. One assessment suggests that the measured impacts could be entirely a result of undetected displacement (Dynarski 1993). Some simulations also indicate that the displacement that results from reemployment bonuses can be substantial, thereby reducing the overall increase in employment that results from bonuses. If the estimated benefit-cost ratios from the experiments are adjusted to incorporate the possibility of substantial displacement effects, the bonuses appear to reduce overall social welfare, rather than to increase it. This is particularly likely to be the case during periods of high unemployment, when the simulations suggest that displacement effects may be the largest (Davidson and Woodbury 1991, 1993).

In sum, the findings from the reemployment bonus experiments and related analyses indicate that the effects of such incentives are marginal at best. These findings are consistent with the interpretation that most UI recipients are involuntarily unemployed.[4] Paying recipients to find jobs more quickly will have little effect if there are no jobs for them to find.

Wage Subsidies

A wage subsidy is a supplement to a worker's hourly wage rate. The government could provide wage subsidies either by periodically distributing cash benefits to eligible workers or by reducing the tax liabilities of such individuals. Wage subsidies represent another potential vehicle for encouraging unemployed individuals to accept jobs more quickly, thereby reducing the length of their unemployment spell as well as reducing the overall rate of unemployment. Wage subsidies are based on a belief that supplementing the wages that an individual receives may make some unemployed workers more likely to accept job offers that they otherwise would not accept.[5] As with reemployment bonuses, the generosity of wage subsidies may be tied to the length of unemployment. Subsidies may be made available for a fixed period of time, thereby encouraging unemployed workers to accept jobs more quickly in order to receive the subsidy for as long as possible. Besides encouraging workers to accept jobs that they might otherwise refuse, the limited time frame would encourage a more intensive job search. In effect, wage subsidies are equivalent to reemployment bonuses except that the subsidies are paid to workers over time rather than in a lump sum.

A wage subsidy program could be administered either as part of the UI system or as a completely separate program.[6] Like reemployment bonuses, the potential effectiveness of wage subsidies depends on the extent to which the following occur: (1) the payment entices an individual to accept a lower-paying job, (2) the payment encourages more intensive job search, and (3) jobs actually exist.

The first of these factors is a function of the "elasticity of labor supply," which is a measurement of how much workers' choices about how much to work respond to changes in the wages that they face. Since wage subsidies increase the effective wage rate that a worker receives (the effective wage is the actual wage plus the subsidy), wage subsidies should increase the supply of labor.[7] There is a large empirical literature, however, which indicates that labor supply is fairly unresponsive to changes in wages—that is, it is inelastic (Heckman 1993). As a result, it would take quite a large increase in wages to induce a substantial labor supply response. The inelastic nature of labor supply indicates that wage subsidies to workers are likely to be an expensive method for increasing employment levels.

Perhaps a more fundamental limitation of the employment-enhancing potential of wage subsidies to workers is that workers must not only be willing to work, but they must also be able to find work. If the supply of workers exceeds the demand for workers, then a wage subsidy that increases supply (even if by a small amount) might actually result in an increase in unemployment, rather than a decrease. That is, if there is insufficient demand for workers, wage subsidies to workers might compound the unemployment problem, rather than ameliorate it.[8]

While there are no experiments on the effects of wage subsidies to workers, the results from the reemployment experiments provide useful insights into the overall order of magnitude of the labor supply responses that might be expected from offering subsidies. This evidence indicates that subsidizing workers' wages could be expected to have a modest effect on the length of unemployment for those to whom the subsidy was offered, but that the effect would be offset by some displacement. During periods of high unemployment, the displacement effects might be so large as to render the policy counterproductive.

Self-Employment Subsidies

An alternative to finding a job with an existing employer is for unemployed individuals to start their own businesses. In the past, however, the UI system was a constraint, since UI recipients are required to be available to accept a job offer in order to remain eligible for benefits. An individual who had just started up a business was therefore ineligible for UI on these grounds. Federal law now provides states with the option of incorporating a self-employment scheme into their UI programs. This option would allow UI-eligible individuals who meet program qualifying requirements to collect allowances similar to their UI benefits for a period of time while planning and establishing their own businesses.[9]

The U.S. Department of Labor has sponsored two experimental demonstration projects that test the provision of financial allowances and training to UI recipients interested in self-employment who met certain qualifications. The specific details of the two programs differed, but their results were generally consistent.[10] Only 2 to 4 percent of recipients chose to participate and met qualification standards. Approximately half of these participants ultimately started a business, significantly higher than the control group (composed of similar individuals who were interested in

starting a business but were *not* provided training and financial allowances through the program). In addition, the total length of employment for participants was longer, on average, than members of the control group (Benus et al. 1994).

Great Britain and France have also made use of self-employment projects. The evidence on the effect of the British and French programs is fairly consistent with the evidence that has emerged from the U.S. demonstration projects (see Bendick and Egan 1987). When offered the opportunity, a small percentage of unemployed individuals take advantage of the self-employment option. Although a relatively high percentage of their businesses have failed within 1 to 2 years of starting up, this failure rate does not appear to be markedly different from that which generally prevails for all small, start-up firms. On average, participants are more highly educated and had higher earnings before unemployment than average recipients of unemployment compensation. Observers of Great Britain's program report that some of the businesses started under the program would have been started even in its absence.

Overall, the results from the demonstration projects in the United States, as well as from the programs in France and Great Britain, indicate that there are modest benefits to allowing UI recipients the flexibility required to start up businesses while receiving assistance (either in the form of living stipends or a lump-sum payment) through the UI system. For the vast majority of UI recipients, however, self-employment is unlikely to be a viable option.

POLICIES AFFECTING THE DEMAND FOR LABOR

The previous section suggests that policies designed to influence the supply of labor do have the capacity to encourage somewhat more rapid reemployment among a minority of the unemployed, although this benefit may come at the expense of other unemployed individuals. This displacement is likely to be particularly problematic during times of relatively high unemployment. It is during such times that active labor market policy influencing the demand for labor, rather than the supply of labor, is likely to be most efficacious.[11]

Employment Tax Credits and Other Hiring Incentives

The demand-side analogue to supply-side efforts to pay workers to leave unemployment (for example, by offering reemployment bonuses) is to pay

employers to hire unemployed workers. In theory, offering tax credits to employers who hire unemployed individuals represents a fairly simple mechanism through which the government can increase the demand for labor and thereby increase employment levels and reduce unemployment.[12]

In practice, however, achieving this goal is complicated. First, a number of complex design questions must be addressed. Foremost among these is the determination of the conditions under which employers would be eligible for a tax credit. Presumably, only employers who increased their employment above the level that prevailed in some previous period would be eligible for a credit.[13] Consideration must also be given to the types of employment increases that would qualify an employer for the tax credit. For example, new workers hired might be required to have been unemployed or economically disadvantaged in order to allow the employer to qualify.

The more restrictions that are applied to the conditions that qualify the firm for a tax credit, the smaller will be the employment gain that results from it. These, however, are precisely the conditions that minimize the cost to the government per job created (Bassi 1985), since the only way to entice firms to hire more workers than they otherwise would is to make it profitable for them. As a result, the greater the increase in employment, the higher the cost per new job created and also the larger the windfall profits realized by the firm. If the tax credits are successful in creating jobs, then that success is inevitably the result of a redistribution of income that generally favors employers.

To the extent that the tax credit is narrowly focused on a particular category of workers, such as the economically disadvantaged, the dual problem of large windfalls to firms and high cost per job created is reduced (Bassi 1985). Concerns arise in such a situation, however, about the extent to which individuals who allow the firm to qualify for the tax credit will simply displace other categories of individuals who do not qualify for the credit. The extent to which this type of displacement will actually occur is a function of the ease with which firms can substitute one type of worker for another in response to the changes in their relative wages that result from the tax credit.

The U.S. experience with employment tax credits has been limited to the New Jobs Tax Credit (NJTC) and the Targeted Jobs Tax Credit (TJTC).[14] The NJTC, available only in 1977 and 1978, was intended to provide countercyclical stimulus. The TJTC, which has been available in

some form since 1978, was intended to stimulate employment among certain categories of workers (Barnow et al. 1990).[15]

Evaluating the impact of these two employment tax credits has proven to be difficult, and the literature comes to somewhat mixed conclusions about the overall effectiveness of this approach to stimulating employment.[16] There does appear to be some consensus, however, that the effectiveness of both the TJTC and the NJTC has been limited by the complexity of the rules governing the credit. In addition, the impact of the credits has been reduced because many employers did not know of the existence of the tax credit programs. Further, evidence from the NJTC, in particular, suggests that there was a considerable windfall realized among some of the employers who did take advantage of the credit. Evidence from the TJTC suggests that the tax credit may stigmatize those individuals who are eligible for it, thereby reducing employers' willingness to hire them (Burtless 1985).

The conclusion that emerges from the research on these programs is that carefully designed, well-publicized employment credits may have a capacity to stimulate employment, either in general or for a targeted category, although it should be expected that some windfall profit is created for employers (Barnow et al. 1990).

One possibility that could be used in future tax credits would be to fund the credits through the UI system. A mechanism could be created through which employers could receive the UI benefits for which individuals would have been eligible, thereby reducing the costs of hiring those individuals. One component of a social experiment in Illinois tested the effects of a related concept. Employers were offered a cash bonus for hiring a UI claimant who met certain eligibility standards and who chose to participate. Overall, the program was marked by relatively low participation rates, as only 65 percent of claimants who were offered the opportunity to participate chose to do so. Although the program showed some positive short-term effects, there was no significant effect over a full year, as measured by changes in either weeks of unemployment or benefits collected.[17] The results suggest that the positive effects of such a program are likely to be marginal.

If implemented, any program designed to encourage worker hiring would also require provisions to minimize displacement and the incentive to replace workers once their UI subsidies had been exhausted. Inevitably, there would also be some windfalls to those employers who would have

hired the unemployed even without this incentive. An advantage of this approach, however, is that it would not require a new funding source, since it would take funds currently used for income maintenance and use them for promoting employment.[18]

Training Tax Credits or Grants

An alternative to providing financial incentives to employers for hiring additional workers is to provide incentives for firm-sponsored education and/or training. Research evidence generally suggests that employer-provided training represents one of the most effective methods of preventing unemployment and promoting wage growth for the workers who receive it. Consequently, while training incentives would not have an immediate impact on the demand for labor, they could have a long-term impact.

In recent years, a growing number of state governments have been offering training tax credits or grants to employers, either as an incentive to entice prospective employers to locate within the state or to promote earnings growth of the states' citizens. As of 1990, 46 states had at least one state-financed training program (Barnow et al. 1990). While a few of these programs have been in existence for decades, the majority of them were created in the late 1980s in response to a growing perception that the private sector was providing less than the optimal amount of training.

As with employment tax credits, careful consideration must be given to the design of these programs so that additional training is created without subsidizing firms to provide training they would have provided even in the absence of the tax credit. The states have addressed this problem in a variety of ways, including limiting the types of firms that are eligible for the training programs (for example, including firms with financial need) and limiting the types of training that the program will subsidize (for example, offering basic skills training rather than job-specific training). States have funded the programs in a variety of ways, such as through general revenues, lottery funds, and earmarked payroll taxes that often have been shifted from UI trust funds. The level of funding of these programs has ranged from $50,000 in Vermont to $55 million in California (Barnow et al. 1990).

There are few formal evaluations of these state-sponsored programs. Several evaluations have found that state training grants often serve as a

catalyst to encourage firms to embark on training programs and ultimately to invest more of their own resources in training.[19] While the findings from these studies must be considered preliminary, they provide no evidence that state-financed training initiatives are simply displacing private spending that would otherwise take place. The finding of minimal displacement is at least partially the result of the targeting mechanisms that states use, which attempt to identify those firms, such as small, financially distressed companies, that are least likely to be providing training.

Two studies have attempted to identify the effect of such programs on the workers within the firms that receive state training grants, using data from California's Employment Training Panel (ETP) Program.[20] Both studies found that workers who completed courses of training provided through the ETP Program enjoyed significantly higher earnings and lower unemployment over the course of a follow-up period that lasted several years. What these studies are not able to determine, however, is the extent to which these findings are merely the result of "self-selection" by participants.[21] Nevertheless, the gains to workers in these programs do appear to be larger than those which accrue to participants in postsecondary vocational training—for example, those taught at a community college (Moore and Blake 1992). Once again, while these findings must be considered preliminary, they are consistent with the interpretation that education and training for adult workers is most valuable when it takes place within firms.

In sum, the preliminary evidence from state-sponsored, in-firm education and training programs is generally positive. There is little evidence that displacement is a serious problem, and the gains to the workers in these firms may be significant.

Economic Development Initiatives

Training tax credits and grants offered by states are often one component of a larger financial package consisting of other tax incentives and/or infrastructure improvements that states may offer either to encourage existing firms to expand or to entice new firms to locate within the state. In some cases, these packages are offered only in specially designated "enterprise zones," areas with persistently high unemployment rates.

In general, the evaluation literature on the effectiveness of these economic development initiatives has not been optimistic. A consensus

seems to be emerging that state (and local) governments often give away more in benefits to firms than the residents recoup in return.[22] Furthermore, states and localities may be involved in a national "zero-sum" game in which they bid for a fixed number of employers and jobs; when one state wins, another loses. In this situation, the primary beneficiaries of economic development initiatives are firms and their stockholders.

The evidence on enterprise zones is only slightly more optimistic, with some authors cautiously concluding that while enterprise zones are no panacea, notable improvements in economic activity have occurred in at least some cases.[23] There appears to be no research, however, on the cost-effectiveness of using enterprise zones for job creation.[24] Whatever their job creation potential, it must again be kept in mind that at least some of the new jobs created within enterprise zones will be at the expense of jobs that would have been created elsewhere.

Short-Time Compensation Programs

When firms experience declines in demand, an alternative to laying off workers is to implement a "work-sharing" program that reduces the number of hours of work among a broader group of workers. For example, instead of laying off 20 percent of a firm's workers, the hours of all workers could be reduced by 20 percent each. By adjusting hours of work instead of the number of workers, the cost of unemployment, both financial and otherwise, is broadly shared, rather than being borne by a relatively small proportion of workers. At the same time, a participating firm is able to retain its skilled workers and avoid the costs of hiring new workers when demand is restored to its previous level.

The existing UI system may, in many states, represent an impediment to work sharing. Since the earnings of most individuals who are working part-time are sufficiently high to disqualify them from receiving UI, workers as a group may prefer the layoffs of some (who could then collect UI), rather than having to share the income loss without any offsetting compensation from the UI system.

Short-time compensation (STC) programs represent an innovation within the UI system that can be used to encourage work sharing as an alternative to unemployment. By relaxing the earnings disqualification in those cases in which reductions in work hours are made in lieu of layoffs,

it is possible to use the UI system to compensate workers for some portion of the earnings that they lose due to work sharing.

A limited STC option is currently available to states. The first STC program in the United States was introduced in California in 1978. Since then, 16 other states have implemented similar programs. In a typical STC program, individuals would work 4 days per week and receive UI benefits for the fifth day of each week. A number of European countries, most notably Germany, have relied heavily on STC programs for many years as a means of alleviating the hardship associated with unemployment.[25]

As is the case with most labor market policies, it is difficult to isolate the impact of STC programs. In general, however, the evaluations of STC programs are quite positive, indicating that the overall benefits of the programs outweigh the costs, and that under some circumstances (and assumptions), the net benefits of the programs can be substantial. The programs are not, however, cost saving from the perspective of the government. That is, they result in larger outlays from the UI trust funds than would occur if layoffs were used as the alternative.

Despite their apparent benefits, the use of STC programs in those states in the United States that allow them has been quite low. Indeed, it is much lower than utilization rates in other countries.[26] There are a number of possible explanations for this, including the following: (1) employers do not know about the program; (2) fringe benefits represent an impediment to STC;[27] (3) the application and certification process is burdensome; and (4) the experience rating of the UI system in the United States acts as a deterrent.

As it now stands, the minimal utilization of STC programs in the United States limits their potential for reducing unemployment. If some of the problems outlined above could be overcome, the evaluation literature indicates that STC might represent a viable alternative for relieving some of the suffering that unemployment causes.

MATCHING LABOR SUPPLY WITH LABOR DEMAND

Economists have long been interested in the process by which unemployed workers find job vacancies, as well as in the process by which employers find appropriate job applicants. While some of the time spent during search processes is good in that it can lead to a better matching of workers' skills and preferences with employers' needs, too much time spent in

search is wasteful. There is a clear role for public policies that reduce these inefficiencies by providing information about the labor market. Many of the programs that provide this information are discussed in Chapter 14.

Provision of Relocation Assistance

Another mechanism for facilitating a better matching process between job openings and unemployed workers is to provide relocation assistance to the unemployed. There are at least two reasons to believe that such assistance might improve the job-matching process. First, moving is expensive, and the unemployed are the least likely to be able to afford the expenses of relocation. Second, geographic pockets of unemployment can persist for extended periods. For example, throughout the past decade, the unemployment rate in West Virginia has been at least 50 percent above the national rate, and at times it has been twice the national rate.

For many individuals in such depressed labor markets, it is likely that the only way they will be able to find jobs is to relocate. This has led the federal government to conduct a number of relocation demonstration projects, in which workers were provided financial assistance for moving expenses if they found a job outside of their current geographic area. Evaluations of the effectiveness of the projects, however, are not positive.[28]

A recent experiment in New Jersey, for example, indicated that providing unemployed individuals with job search assistance *and* relocation assistance did not result in any better reemployment outcomes than those that resulted from providing individuals with job search assistance alone. The only condition under which relocation assistance appears to be remotely effective is in a significantly depressed labor market. Even then, it appears to be effective only for some of the youngest members of the labor force.

The weight of the evidence from the federal government's relocation demonstration projects and experiments indicates that in isolated cases, such as profoundly depressed labor markets, relocation assistance may be effective. In most other situations, however, it does not appear to be a cost-effective mechanism for assisting the unemployed in finding new jobs.

CONCLUSIONS

Financial incentives designed to improve the employment and earnings opportunities of workers can take one of three forms. First, some policies

attempt to affect labor supply either by creating incentives for the unemployed to search more intensively for work or by reducing the wage rate at which unemployed workers are willing to accept employment.[29] The results from the reemployment bonus literature indicate that this type of policy may have a marginal effect on employment. During times of high unemployment, however, such policies might actually be counterproductive. In those instances, such programs face a fundamental constraint: the provision of monetary incentives for the unemployed to accept jobs cannot improve an unemployment situation that is caused by a problem of labor demand rather than of labor supply.

Investing in the employment and training of unemployed individuals is intended to affect the quality of the labor supply. A mounting body of empirical evidence, however, suggests that such efforts are often not cost-effective when they are provided by the government (see Chapter 14). Firm-provided education and training, on the other hand, appear to be quite effective in increasing the earnings of an individual and reducing the probability of his or her unemployment. This suggests that publicly financed education and training efforts in the future would be more effective if they were more closely linked to the private sector than they have been in the past.

The second category of labor market policy is designed to affect the demand for labor. Although there is evidence that demand is typically more of a constraint in the labor market than is supply, the United States has experimented in only a limited manner with policies that focus on increasing the demand for labor. The few efforts that have been undertaken (employment tax credits for businesses) have not met with significant success. It is possible, however, that well-structured, well-publicized initiatives designed to increase demand could be effective. Further, if these initiatives were tied to efforts that promote firm-provided education and training for workers, it is possible that the long-term employment and earnings prospects of workers could be improved.

One potential strategy might be to offer unemployed workers a time-limited voucher that could be used in one of two ways. The individual could cash in the voucher upon accepting a job, as with a reemployment bonus, or the individual could turn the voucher over to an employer who could then cash it in (resulting in a wage subsidy to the firm). The advantage of this approach is that it would encourage more intensive job search by the unemployed, but at the same time it could stimulate the

demand for labor in cases where that is the constraining factor. If such an approach were accompanied by state or federal programs or grants to stimulate firm-financed education and training, long-term as well as short-term employment and earnings opportunities might be improved.

Finally, providing unemployed individuals with better labor market information—the third category of labor market policy—may be a cost-effective method for reducing the length of time that it takes the unemployed to find jobs. The provision of labor market information is discussed further in Chapter 14.

The compilation of evidence in this chapter, however, suggests strongly that there is no single solution. Policies that stimulate the supply of labor without affecting the demand for labor are likely to prove futile. On the other hand, active labor market policies that stimulate the demand for employment, encourage employers to provide more education and training to workers, or provide the unemployed with better labor market information may represent steps in the right direction. In the end, however, there is no substitute for a strong labor market. Active labor market policy can serve as a complement to macroeconomic policy, but it cannot be a substitute for it. Both are needed if the employment and earnings prospects of workers are to improve.

NOTES

1. For example, those who become reemployed might be required to remain employed for a certain period of time.

2. The bonuses ranged from twice the weekly UI benefit to one-half of the remaining UI payments for which an individual would be eligible before exhausting all benefits.

3. For additional information on the evidence from reemployment bonuses, see Anderson et al. (1990); Corson et al. (1989, 1992); Decker and O'Leary (1992); Spiegelman et al. (1992); Spiegelman and Woodbury (1987).

4. Abraham (1983), for example, reports that the number of workers looking for jobs generally is substantially in excess of the number of job vacancies. During the late 1970s, for example, she estimates a ratio of 5:1 between job seekers and job vacancies.

5. Wage subsidies could either be permanent or temporary. Because permanent wage subsidies are generally a form of income redistribution rather than a tool for active labor market policy, they are not considered in this discussion.

Essentially, wage subsidies paid to workers serve as a form of insurance against the reduction in wages that workers often face after they are dislocated from their jobs. Some analysts, in fact, prefer to characterize wage subsidies as a form of insurance

(Baily et al. 1993). This "wage insurance" could either be self-financed by the individual, or collectively financed by the government.

Markets for private wage insurance are likely to be plagued by two major problems. The first is adverse selection—those individuals who would be most likely to want to purchase wage insurance would be disproportionately likely to be in need of it, thereby driving up its costs. Second, low-income individuals who might stand to benefit from wage insurance might not purchase it because they could not afford it. The fact that there is currently no market mechanism for providing wage insurance indicates that these problems might be impossible for the private market to overcome.

6. It should be noted, however, that the implementation of wage subsidies could be quite difficult for the government to monitor. It would be in the interest both of workers and their employers to collude in reporting low hourly wages, rather than low hours of work, in order to qualify for the subsidy.

7. Consistent with the findings of the empirical literature, this statement is based on the assumption that there is a non-negative elasticity of labor supply (that is, that the substitution effect outweighs the income effect).

8. Economists have considered a variety of aspects of the operation of the labor market that tend to prevent wages from falling in response to an excess supply of workers. Some of the sources of downward rigidity in wages include imperfect information, the existence of contracts (either implicit or explicit), and minimum wage legislation. See Davidson (1990) for a review of many of these issues. To the extent that these factors create a downward rigidity in wages (that is, a tendency for wages to fail to decline sufficiently to eliminate unemployment), wage subsidies targeted at workers will fail to produce the intended results.

9. Under the North American Free Trade Agreement Implementation Act (P.L. 103-182), states with self-employment programs may make unemployed workers eligible for self-employment assistance if the individuals meet the following conditions: they are (1) eligible for regular UI benefits, (2) identified through a worker profiling system as likely to exhaust benefits, (3) participating in approved self-employment assistance activities, and (4) actively engaged full-time in activities related to establishing a business.

10. For example, Washington made lump-sum payments to eligible individuals, while Massachusetts provided biweekly payments equal to an individual's regular UI benefits.

11. An alternative to active labor market policy is expansionary macroeconomic policy. A discussion of macroeconomic policy, however, is beyond the scope of this chapter.

12. Alternatively, unemployed workers could be given vouchers that would enable employers who hire them to get an immediate rebate, rather than waiting until they filed tax returns.

13. Otherwise, the tax credit would generate large windfall profits to firms relative to the number of jobs created.

14. The credit is only available for certain categories of economically disadvantaged and/or handicapped individuals.

15. Other similar tax credits have been implemented for research (the Research and Experimentation Tax Credit) and investment (the Investment Tax Credit). A recent literature review by Barnow et al. (1990) indicates that the lessons learned from the evaluations of these two alternative types of credits are essentially analogous to those from the NJTC and the TJTC.

In addition, the Illinois reemployment bonus experiment included a subcomponent that experimented with bonuses to employers (see Woodbury and Spiegelman, 1987). Since bonuses are equivalent to subsidies, except that they are paid in lump sum form, the results from the Illinois experiment are relevant to this discussion. Essentially, the findings are consistent with those from the evaluations of the tax credits. Bonuses to employers had marginal effects, and the effects seem to result almost entirely from increased hiring of women.

16. Barnow et al. (1990), and Bishop and Montgomery (1993).

17. Spiegelman and Woodbury (1987), and Woodbury and Spiegelman (1987).

18. Whether or not such an approach would create a drain on the UI trust funds would depend on the magnitude of employers' response.

19. See Creticos and Sheets (1989), and Bassi (1994).

20. See Moore and Blake (1992), and Moore et al. (1988). Funds for these programs are generated through an earmarked payroll tax. At the inception of the program, the UI payroll tax was reduced by the amount of the training payroll tax, thereby holding employers harmless. Thus, this payroll tax represents a diversion of UI trust funds.

21. If the more able or more motivated individuals enroll in and complete such programs, then participants' higher earnings and lower unemployment after the program may be a result of their greater ability or motivation rather than a result of the program itself.

22. See, for example, Milward and Newman (1989) for a review of the research on this issue.

23. See Rubin (1990) for a review of the empirical literature on enterprise zones.

24. Rubin (1990) does attempt a cost-effectiveness study for enterprise zones in New Jersey. Her analysis, however, is simply based on returns to state expenditures rather than focusing on job creation.

25. Most of the material in the remainder of this section is drawn from Cook et al. (1993).

26. In states with programs, the average usage has been about 0.2 percent of UI claimants, whereas in Germany the usage rate has ranged from 10 to 17 percent.

27. Most states do not require the on-going payment of fringe benefits in order for a firm and its employees to qualify for an STC program. Nevertheless, most participating firms do continue to provide fringe benefits.

28. The remainder of this section is based on Cook et al. (1994b).

29. This latter option could include self-employment as an alternative to accepting a job offer from an existing firm.

14 / Reemployment: Services for the Unemployed

FACILITATING THE REEMPLOYMENT of unemployed individuals has been cited as an explicit objective of the Unemployment Insurance system (Blaustein 1993). This objective has taken on a new urgency in recent years and has placed additional burdens on existing reemployment programs. A number of publicly financed reemployment services and programs are available to help unemployed individuals find jobs.[1] These programs, sponsored by both federal and state agencies, vary widely in their eligibility requirements, services, size, and scope. In recent years, as workers' unemployment and their reemployment prospects have become more closely linked to their education and training histories, additional investment in education and training has increasingly come to be viewed as the solution to the reemployment problems of unemployed workers.[2]

Receiving UI benefits neither precludes nor guarantees individuals' participation in most of these programs. Some programs, however, are targeted to youths or to new labor market entrants and are therefore not available to experienced workers, whereas others are targeted specifically to dislocated workers with job experience. This chapter focuses predominately on the reemployment services available through programs sponsored by the U.S. Department of Labor for which a number of UI recipients may be eligible.[3]

Existing Department of Labor programs include the Employment Service, Trade Adjustment Assistance, Economic Dislocation and Worker Adjustment Assistance, North American Free Trade Agreement Adjustment Assistance, and Title II-A of the Job Training Partnership Act. In addition,

the Worker Profiling Initiative is a new effort that is designed to provide assistance to the long-term unemployed. Overall, these programs vary greatly, but each one provides services that are aimed in some way at enhancing individuals' labor market opportunities. Despite the variety of available programs, only a small percentage of UI claimants participate.[4] Research has been conducted on many of the existing programs to determine their effectiveness. Studies find that certain service strategies are most effective in serving the unemployed. The evidence generally supports the following conclusions: (1) early intervention is important in facilitating the reemployment of displaced workers; (2) job search assistance and on-the-job training appear to improve the employment and earnings of dislocated workers; (3) the impact of short-term classroom training appears to be marginal, at best; and (4) there is no available research evidence on the effectiveness of long-term training on the employment and earnings of dislocated workers. These conclusions are explored in the sections that follow.

REEMPLOYMENT SERVICES IN U.S. DEPARTMENT OF LABOR

Receipt of Reemployment Services

Little descriptive information is available on the services that UI claimants receive, but the available data indicate that only a small portion of UI recipients participate in any type of reemployment services. One recent survey of UI claimants who were about to exhaust their benefits found that only 1.4 percent had either participated in on-the-job training or in occupational training programs.[5] Beyond the services and work registration provided by the Employment Service, only 6 percent of the UI claimants had participated in job search assistance classes, job clubs, or job counseling. Eighty-two percent of respondents, however, said they would have accepted job search assistance at the *start* of their UI claim period, and 72 percent would have accepted skills training at the start of the claim period (Richardson et al. 1989).

The survey finds, however, that 80 percent of recipients who are about to exhaust their benefits are no longer interested in reemployment services. It is likely that this is in part because they would no longer be able to rely on income support while receiving services such as training. Overall, the results indicate that most of the long-term unemployed do not receive reemployment services, and that early intervention strategies are particu-

larly important because they allow claimants to enroll in reemployment programs before their UI benefits are exhausted.

The remainder of this section discusses specific programs. It provides an overview, a description of program eligibility requirements, the services available, the numbers of individuals served, the funding source and levels, and any available evidence on effectiveness, for each of the following programs: the Employment Service, Trade Adjustment Assistance, Economic Dislocation and Worker Adjustment Assistance, North American Free Trade Agreement Adjustment Assistance, and Title II-A of the Job Training Partnership Act program for adults.

Employment Service

The Employment Service (ES) was established through the Wagner-Peyser Act of 1933 as a federal-state partnership to assist the unemployed in finding public- or private-sector employment. Because there are only general federal mandates and because states have a great deal of flexibility in customizing their own programs, the quality and quantity of services provided varies significantly across states.

More than 1,700 local ES offices deliver services to ES applicants. While the primary mission of the ES is to perform a labor exchange function, the program's mission and responsibilities have changed significantly over time. Current mandated responsibilities of the ES include the following: administration of "work test" requirements for UI; certification of individuals for the Targeted Jobs Tax Credit;[6] provision of counseling, testing, and other employment-related services; administration of special programs for targeted groups, such as Economic Dislocation and Worker Adjustment Assistance; certification of alien labor and verification of employer compliance with regulations; and collection of labor market information (Kulik 1994).

Local ES offices are funded primarily (97 percent) through a payroll tax levied on employers under FUTA, with a small portion (3 percent) of funding from general revenues (Kulik 1994). Significant cutbacks in federal funding for ES between 1982 and 1987 resulted in subsequent reductions both in the size of the staff and in the number of local offices.

Unlike the other programs discussed in this section, eligibility requirements for using the ES are minimal; an individual must only be legally authorized to work in the United States. Essentially, the ES program must

provide assistance to anyone who seeks it. Approximately one-fourth of all job seekers register with the ES (Jacobson 1994). Approximately 40 percent of these individuals register with the ES in order to fulfill eligibility requirements in other programs, including UI, food stamps, and Aid to Families with Dependent Children (Kulik 1994). The UI eligibility requirement results in a direct linkage between the ES and UI.

In program year 1992, 21 million individuals registered with the ES. Of these, 2.7 million were placed in jobs (13 percent). Expenditures for program year 1992 were $768 million, which represents a cost of $268 per job placement, or $37 per applicant.[7] Over time, less than 2 percent of all job openings have been filled through the ES. Many ES applicants also receive services other than actual job placements: approximately 41 percent are referred to jobs, 3 percent receive counseling, and 2 percent are referred to training.[8]

The ES has been subject to substantial criticism for the quality of the services it provides. The criticisms include the following (Kulik 1994):

- Those who use the ES are often more disadvantaged than are other job seekers (that is, they are younger, have less work experience, and have longer prior spells of unemployment) and use the ES only after other job search methods have failed.

- Less than half of those who register with the ES actually receive subsequent services. As noted above, an even smaller fraction (17 percent) actually find jobs through the ES. UI claimants experience an even lower ES placement rate.[9]

- Although the ES fills approximately 60 to 70 percent of the job orders it receives, many of these are low-skill and low-wage jobs. Employers do not usually post high-skill jobs either because they do not believe the ES serves the appropriate clientele or because they question the ES's ability to screen job applicants appropriately.

- The placement rate for the ES has declined significantly over the past 20 years.

There are at least two possible explanations for the decline in the placement rate (Kulik 1994). First, the ES may be significantly underfunded.

Second, the capacity of the ES to produce results for applicants may be reduced by the many applicants who register solely to maintain their eligibility for other programs.

Program Impacts

It is difficult to evaluate the ES program and to assess the validity of the criticisms of the ES. In large part, this is a result of the fundamental nature of the ES's mandate. Because the ES cannot turn away individuals who desire service, it provides services disproportionately to many of the most disadvantaged members of the labor force. This makes it difficult for researchers to disentangle the effect of the ES on the reemployment status of applicants from the effects of the disadvantaged status of many of the applicants. Nevertheless, the weight of the existing evidence suggests the following conclusions regarding program impacts:[10]

- Women, older workers, and some dislocated workers who use the ES are estimated to return to work more quickly and to experience higher earnings than nonusers with similar characteristics.

- Individuals who use the ES do not have significantly lower reemployment wages than individuals who do not. This suggests that those placed by ES do not trade quicker job placement for lower pay.

- Additional earnings resulting from ES placement are due to additional time spent working, not to higher placement wages.

- Because the average ES cost per individual served is so low, the ES appears to be cost-effective (despite its modest impact on the reemployment prospects of the unemployed).

- The declines in ES placement rates over the past 20 years are a result of both significant reductions in federal funding and increased mandates to register hard-to-place individuals.

- The ES often assists job seekers who lack good information about pay and location of jobs and who may have failed to find jobs through normal search methods.[11]

- Performance, as measured by increased placement rates, increases significantly in ES offices under the following circumstances: performance goals are established and measured; state officials conduct annual on-site visits to assess performance; the ES office is involved with other placement or job training programs; individual intake interviews are performed instead of group interviews; offices have self-service systems where job lists can be viewed by job seekers without the assistance of ES staff; and the ES offices are physically located at a separate location from the UI office (that is, the ES office is perceived as an employment source without the negative connotations of an "unemployment" office).

Trade Adjustment Assistance

The Trade Adjustment Assistance (TAA) program for workers was established in 1962 to compensate workers for lost income resulting from job losses associated with trade liberalization. With annual expenditures in Fiscal Year (FY) 1991 of $181 million, TAA is currently the largest of the programs designed to assist displaced workers whose job losses are associated with federal policies (U.S. House of Representatives, Committee on Ways and Means 1994).

In order to qualify for assistance, unemployed workers from a firm must petition for certification. Current certification criteria require that the following conditions be met: a significant share of the firm's work force is threatened with dislocation; sales or production have decreased; and increased imports have "contributed importantly" to the reductions in employment, sales, or production. The certification process for TAA services can be lengthy, requiring an intensive investigation by representatives of the U.S. Department of Labor. The federal investigation can take up to 60 days and states may take additional time (anywhere from 2 weeks to 2 months) before notifying workers of their eligibility (U.S. General Accounting Office 1992a).

Since its inception, the program and its emphasis have changed significantly. There are currently two primary components of TAA: income support and reemployment assistance. These are discussed in the following sections.

Income Support

Because few individuals met the program's initial eligibility criterion—that trade liberalization be the "single most important" cause of unemployment—the TAA program was practically nonexistent between 1962 and 1974. Liberalization of eligibility requirements and expansion of benefits in 1974 brought about increased participation in the program. Between 1974 and 1981, the emphasis of TAA was on providing financial assistance to the unemployed. Cash benefits (called trade readjustment allowances, or TRAs) were based on a national standard of 70 percent of workers' former gross weekly wage.[12]

In 1981, changes in the TAA program were instituted to decrease program costs and remove the perceived reemployment disincentives that resulted from the program's relatively high wage replacement rate. Benefits were reduced to an individual's weekly UI benefit level available under the state's regular UI system, and these benefits were made available only after UI was exhausted.[13] Benefits are now available for a base period of 52 weeks, with an additional 26 weeks of TRA available if necessary for the completion of an approved training program. In addition, the certification process was administered with greater scrutiny, once again resulting in fewer workers meeting the eligibility criteria for the program.

As a result of these changes, the TAA program is currently much smaller than in the past. In 1980 and 1981, program expenditures averaged $1.5 billion, and an average of 407,000 individuals were served annually. By 1991, only 25,000 displaced workers received cash assistance totaling $116 million, in an average amount of $169 per week, for an average duration of 23 weeks. Payments in 1993 were made to only 10,000 workers at a cost of $51 million, generally because many eligible workers received Emergency Unemployment Compensation (EUC) payments in lieu of TRA payments.[14]

Reemployment Assistance

Beginning in 1988, the TAA program placed additional emphasis on encouraging recipients to return to work by instituting mandatory training requirements. Although training and job search assistance had been available prior to 1988, new legislation established a separate funding source to ensure that these services were provided. In addition, the receipt of TRA payments was made contingent upon participation in an approved training

program.[15] Available services include skills training, counseling, vocational testing, job search and placement, and other supportive services. More than 19,400 individuals received reemployment assistance in FY 1993, primarily in the form of training.[16] Total expenditures for reemployment assistance in FY 1993 were $80 million, the highest level to date. Despite the mandatory training requirement, two recent studies indicate that only 50 to 60 percent of TRA program participants actually participated in TAA training in post-1988 periods.[17]

The General Accounting Office reports that a significant problem with TAA is its inability to respond to the needs of dislocated workers in a timely manner (U.S. General Accounting Office 1993). Because research indicates that workers who receive timely assistance are more likely to find rapid reemployment, this limitation is significant—it not only extends the period of unemployment, but also reduces the options for enrolling in longer-term training. The TAA certification process appears to be the most significant constraint.

Program Impacts

A recent evaluation of the TAA program found that individuals who received TAA-provided training had *lower* employment rates and *lower* earning levels in the first 3 years following their initial UI claim than those TRA program participants who did not receive training (Corson et al. 1993).[18] However, by the end of the 3-year period, trainees earned almost $500 *more* per quarter than TRA recipients who did not participate in training.[19]

Economic Dislocation and Worker Adjustment Assistance

The Economic Dislocation and Worker Adjustment Assistance program (EDWAA) amended Title III of the Job Training Partnership Act (JTPA) in 1988. Under this program, states are allocated federal funds to provide training and related services to dislocated workers. These funds are distributed to states on the basis of their state unemployment rates, with the states typically dispersing these funds to JTPA service delivery areas, which have primary responsibility for administering the EDWAA program.

The criteria for being designated "dislocated" (and therefore eligible for services) under EDWAA are quite broad. They require only that workers

be either terminated, laid off, or long-term unemployed, and have limited opportunities for future employment in their previous industry, occupation, or community. Eligibility assessment is usually made on the state or local level.

In program year 1993, there were 226,000 total EDWAA participants, who were served at a cost of $352 million.[20] EDWAA funds are generally used to provide classroom training, on-the-job training, and job search assistance to program participants. Relocation assistance is also authorized by EDWAA, but is only offered by a few of the local programs. Unlike TAA participants, few EDWAA participants receive any income support beyond regular UI (Congressional Budget Office 1993).

In program year 1990, 38 percent of EDWAA participants received short-term and long-term classroom training, often via local school systems and community colleges. About 26 percent of participants received job search assistance, and another 17 percent participated in on-the-job training activities.[21] Although no national program information is available on the duration of training activities, a GAO study of three states' EDWAA programs found that few participants have enrolled in long-term training programs; about 70 percent of EDWAA participants enrolled in short-term (13 weeks or less) training programs, and less than 10 percent received training that lasted 27 weeks or more.[22] The GAO report finds that EDWAA, like TAA, often fails to respond to dislocated workers' needs in a timely manner. Approximately 63 percent of program participants are placed in jobs and they received an average starting wage of $9.40 per hour in program year 1994.[23] No evaluations of the impact of the program have been conducted. Consequently, it is unclear what the earnings and employment outcomes of the participants would have been in the absence of the EDWAA program.

North American Free Trade Agreement Adjustment Assistance

As part of the North American Free Trade Agreement (NAFTA), an adjustment assistance program was established in January 1994 to provide assistance for workers who lose their jobs as a result of increased imports from Canada or Mexico or because of production shifts to those countries. States are required to make preliminary eligibility determinations within 10 days of application, and the U.S. Department of Labor must make final eligibility determinations within 30 days. Services provided after initial

state certification include on-site counseling and job search assistance. Services that are provided following U.S. Department of Labor certification include counseling, testing, job placement assistance, and training. Program training expenditures are capped at $30 million per year. Income support is also available in the form of TRAs for up to 52 weeks after regular UI benefits expire. As with TAA, the level of income support is equal to the worker's regular UI benefit payments under state law. The program is generally similar to TAA, with two major exceptions: (1) training waivers are not granted, and (2) workers have a more stringent deadline for enrolling in training services.

Title II-A of the Job Training Partnership Act

Title II-A of the Job Training Partnership Act (JTPA), the largest of the Department of Labor's training programs, provides block grants to states to fund training and other services to economically disadvantaged youth and adults.[24] Funding is distributed to states for local programs on the basis of a statutory formula that considers unemployment and poverty levels.[25] The goal of the program is to increase individuals' occupational and educational skills, thereby increasing employment and earnings and reducing welfare dependency. Adult program participants must be at least 22 years of age, and 90 percent of participants must be "economically disadvantaged."[26] Although Title II-A is less likely to serve UI claimants than the previously discussed interventions, its lessons remain pertinent to current and future training initiatives.[27]

Under Title II-A, JTPA provides a wide range of services, including classroom training, on-the-job training, job search assistance, work experience, remedial education, supportive services, and other types of job-related assistance (such as personal counseling, vocational counseling, and transitional assistance).[28] In program year 1994, there were 584,000 participants in Title II-A; 329,000 of the participants were adults. The total cost for the adult program was $722 million. The average adult trainee stays in the program for 30 weeks, at a total training cost of about $3,400. In program year 1991, 44 percent of adult enrollees receive classroom training, 15 percent receive job search assistance, 15 percent receive on-the-job training, and the remaining 26 percent receive other services (U.S. House of Representatives, Committee on Ways and Means 1994).[29]

Program Impacts

Title II-A is one of the few large-scale programs that has been evaluated using an experimental design. During the late 1980s, more than 17,000 JTPA applicants in 16 locations were randomly assigned into either a treatment or a control group (Bloom et al. 1994). The key findings from this experiment are the following:[30]

- Overall, the estimated annual earnings gain for adult women who actually received Title II-A services was $734 (a 15 percent increase), while the estimated gain for adult men was $639 (an 8 percent increase).[31]

- Among those receiving the *on-the-job training/job search assistance* service strategy, the estimated annual earnings gain for adult women was $917 (a 15 percent increase), while the gain for adult men was $844 (a 10 percent increase).[32]

- Among those receiving the *classroom training* service strategy, neither adult men nor women had statistically significant earnings gains.

- Among those receiving *other services,* adult women experienced statistically significant annual earnings gains of $1,580 (39 percent). It is unclear to the researchers why these gains were so large. Adult men did not experience statistically significant increases in earnings.

- Overall, the estimated annual net *social* benefits of Title II-A enrollment were $213 for each adult woman and $228 for each adult man.

The findings suggest that most of the estimated earnings gains were due to increased hours of work rather than to increased wages. The most consistently positive program impacts were realized in the *on-the-job training/job search assistance* service strategy subgroup.[33] The study offers no firm evidence that the *classroom training* service strategy produced earnings gains for adults.

Evidence from Displaced Worker Demonstration Projects

Results from a variety of displaced worker demonstration projects generally indicate that classroom skill training did not appear to improve individuals' reemployment prospects or earnings significantly. Job search assistance, however, did increase the short-term earnings of participants and decrease the amount of UI benefits paid. Other significant findings from these demonstration projects suggest that many of the displaced workers could not adapt to classroom training, and many program graduates could not find training-related jobs despite targeting course selection to the local labor market area.[34]

NEW INITIATIVES IN THE U.S. DEPARTMENT OF LABOR

Worker Profiling Initiative

As part of the 1993 Emergency Unemployment Compensation legislation, each state is required to implement a "profiling" system within its UI program. Profiling is an attempt to identify early during their unemployment spell those individuals who have characteristics associated with dislocated workers or the structurally unemployed. The profiling strategy is based upon research indicating that the early identification of dislocated workers and the provision of comprehensive job search assistance is effective in reducing the length of unemployment spells (Corson et al. 1989).

The U.S. Department of Labor's profiling model is based on the following characteristics: recall status, union hiring hall agreement, years of schooling, job tenure, state employment changes in workers' previous industry and occupation, and state total unemployment rate.[35] States can create a customized profiling model to fit their own circumstances, using selected elements to estimate the probability that an unemployed individual will face substantial reemployment difficulty. Those claimants with the highest estimated probability of difficulty, based on the characteristics listed above, are to be referred to reemployment services no later than their fifth week of unemployment. Claimants who are identified via profiling must participate in reemployment services as a condition of continuing eligibility for UI benefits. The reemployment services, which are to be provided primarily through ES and EDWAA, include job search assistance, career counseling, and training.

The profiling system, which was piloted in three states during FY 1994, is being implemented in two waves—one in FY 1994 and the other in FY 1995. The U.S. Department of Labor has allocated $9 million in FY 1994 and 1995 for development and support of the profiling initiative. It is estimated that 1.4 million (16 percent) of the 8.8 million individuals receiving UI initial benefit payments will receive profiling services once the program is fully operational in FY 1995.[36]

CONCLUSIONS

The evidence presented above suggests the following conclusions regarding reemployment assistance programs in general:

- *Early intervention* is important in facilitating the reemployment of displaced workers.

- *Job search assistance and on-the-job training* appear to improve the employment and earnings of dislocated workers. The Employment Service, which primarily provides job referrals and job search assistance, is cost-effective, although it has only a small effect on reemployment prospects.

- The impact of *classroom training* appears to be marginal, at best, although the focus of research has been on short-term classroom training. There is no research evidence on the effectiveness of long-term training on the employment and earnings of dislocated workers.

NOTES

1. Employers and labor unions also provide training and other services to workers.

2. In 1993, the average earnings of a full-time, full-year, male worker (over age 25) were $50,000 for workers with a 4-year college degree; $36,000 for workers with a 2-year degree; and $30,400 for workers with a high school degree. The figures for a full-time, full-year, female worker (over age 25) were $33,200, $26,400, and $21,000, respectively. This reflects a wage gap of 61 percent between male college graduates and male high school graduates, and a gap of 63 percent between female college graduates and female high school graduates. U.S. Department of Commerce (forthcoming).

3. Although this chapter focuses on reemployment programs sponsored by the U.S. Department of Labor, other federal agencies sponsor employment and education programs that offer employment assistance to individuals in need. Many of these programs, however, serve only youth, new labor force entrants, or re-entrants without recent labor force experience.

In addition to the federally sponsored programs, there are a number of state-funded efforts. These state-sponsored programs frequently offer services to employed workers who are at risk of losing their current jobs, whereas federal programs focus more on unemployed workers. While a review of these state retraining efforts is beyond the scope of this chapter, interested readers are referred to Chapter 13 and to Barnow et al. (1990) for additional information.

4. It is possible that UI claimants' low participation rates in employment and training programs are partially a result of eligibility standards that render individuals who participate in "unapproved" training programs "unavailable for work," and therefore, ineligible for benefits.

5. Richardson et al. (1989). The research was conducted during the late 1980s on claimants in the last 4 to 5 weeks of the period in which they were eligible for UI benefits. The majority of those surveyed were older males who had not attended college.

6. See Chapter 13 for more information on the Targeted Jobs Tax Credit.

7. Unpublished data from U.S. Department of Labor.

8. The proportion of ES applicants receiving services has remained relatively stable over the past 15 years (Kulik 1994).

9. Possible reasons for this include the following: (1) they are overqualified for the jobs available, (2) their wage expectations are high, and (3) UI benefits discourage their job search.

10. For a review of ES studies, see Kulik (1994) and Jacobson (1994).

11. Research on work search indicates that many job seekers obtain employment through contacts and word-of-mouth and that ES is used as a last resort (Jacobson 1994).

12. This amount was capped at 100 percent of the average weekly wage for workers in the manufacturing sector.

13. Prior to 1981, TRAs served as a supplement to UI benefit payments.

14. Information for 1991 and 1993 is from U.S. House of Representatives, Committee on Ways and Means (1994).

15. TRA participants can receive a waiver from this training requirement, which allows them to receive TRA for up to 26 weeks when legitimate reasons prevent them from participating in training. Waivers are granted under one of the following conditions: (1) a worker cannot reasonably be expected to benefit from training, (2) a worker is not qualified to undertake available training, (3) training is not available, or (4) there is not a reasonable expectation of employment following training.

16. U.S. House of Representatives, Committee on Ways and Means (1994). In addition, 594 workers received job search allowances to seek work outside their commuting area, and 750 received relocation assistance to obtain a job in another area.

17. Corson et al. (1993), and U.S. General Accounting Office (1992a,b). According to Corson et al. (1993), training received was often long-term (more than a year), and almost three-fourths of it was provided at vocational training centers or local community colleges. About three-fourths of trainees enrolled in skills training as opposed to general education. The most frequent occupations chosen for retraining were manager/professional, technical, administrative support, and mechanical/repair.

18. To some extent, these results are not surprising, since trainees are more likely to have made a significant career change by choosing training in a new occupation or a job in a new industry.

19. These results led the study's authors to suggest that TAA's mandatory training requirement should be made voluntary, as it was prior to 1988, and that a job search requirement and job search assistance may be better strategies to increase the overall employment and earnings prospects of TRA recipients.

20. Unpublished data from U.S. Department of Labor.

21. The remaining 19 percent received other services (U.S. Department of Labor 1992a). Program activity data for EDWAA are no longer collected on a national level.

22. The states were Michigan, New Jersey, and Texas (U.S. General Accounting Office 1992a).

23. Unpublished data from U.S. Department of Labor.

24. When possible, this section focuses on the program for adults.

25. The majority of funds are distributed to local community Service Delivery Areas (SDAs). SDAs are usually units of local government with populations of 200,000 or more; there were 635 SDAs in program year 1989. At the local level, Private Industry Councils (PICs) are established to provide oversight and guidance for the job training programs in the SDA. PICs typically include representatives from business, educational agencies, organized labor, community-based organizations, public employment services, economic development agencies, and rehabilitation agencies.

26. "Economically disadvantaged" is defined as having a family income below 125 percent of the poverty line over the 6 months prior to program entry. Youths in JTPA Title II-A must be between 16 and 21 years of age. Separate provisions are available for older workers under this program. At least 65 percent of participants must have one barrier to employment, such as a basic skills deficiency, or being a high school dropout, a welfare recipient, disabled, an ex-offender, or homeless.

27. The majority of adult JTPA Title II-A enrollees do not receive UI due to lack of work experience or because of the circumstances surrounding their separation from their last job. Only 14 percent of JTPA Title II-A adult participants who completed the program in program year 1992 received UI benefits. Unpublished data from U.S. Department of Labor.

28. Unlike its predecessor program, the Comprehensive Employment and Training Act (CETA), Title II-A has no provision for public-sector employment and does not emphasize work experience in its training.

29. Program activity data for JTPA Title II-A are no longer collected on a national level.

30. Before random assignment, individuals were classified into one of three service group strategies—classroom training in occupational skills and/or basic education (CT); on-the-job training and/or job search assistance (OJT/JSA); or other services (OS), which included JSA but not CT or OJT.

Three important caveats of this study should be pointed out. First, the 16 sites chosen were not representative of the JTPA Title II-A population as a whole, and therefore the results cannot be generalized to the entire Title II-A program. Second, the interpretation of the effectiveness of the individual services must be viewed with caution since Title II-A applicants were *assigned* to services, but did not necessarily receive them. Among adults in the Title II-A treatment group, 71 percent actually received the assigned CT training, 51 percent received OJT/JSA, and 44 percent received OS. Third, the study measures the incremental effects of Title II-A, since control group members had access to services outside of Title II-A. For the adults in the comparison group, 41 percent received CT, 22 percent received OJT/JSA, and 27 percent received OS.

31. Although all treatment group members were given access to Title II-A services, only 51 percent enrolled in and received the services. Therefore, the average impact per service recipient represents the estimated impact of the effect of *receipt* of JTPA services.

In contrast, the average impact per assignee represents the effect of *access* to JTPA services. The estimated annual earnings gain for adult women who were assigned to receive Title II-A services was $470 (a 10 percent increase), whereas the estimated gain for adult men was $391 (a 5 percent increase).

32. Overall, adult women in the control group had mean earnings of $12,241 and adult women in the treatment group who received services had an estimated mean earnings of $14,078, creating an increase of 15 percent. Of the women who were assigned to the *on-the-job training/job search assistance* service strategy, the control group had mean earnings of $15,027 and adult women in the treatment group who received services had an estimated mean earnings of $17,319. Thus, women who received on-the job training/job search assistance earned, on average, 15 percent more than the women in the control group.

Although the gains realized by men were not statistically significant for the entire period, they were found to have statistically significant earnings gain of $1,125 in the second post-program year.

33. The most "employable" applicants were often assigned to this service strategy.

34. Leigh (1990). Demonstration projects were conducted in cities in Michigan, New Jersey, New York, and Texas.

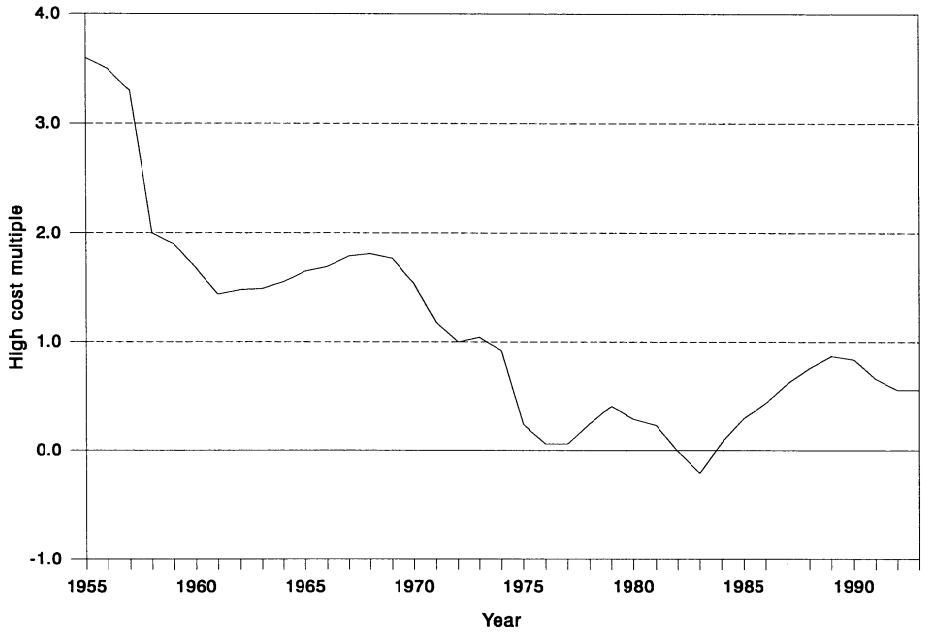
35. U.S. Department of Labor memorandum to all State Employment Security Agencies (Farmer 1994).

36. The UI claimants who will not be receiving profiling services either expect to be recalled, are unlikely to exhaust UI benefits (based on model specifications), drop out of the system prior to referral to the program, or are misclassified by the program.

Appendix A / Financing: Background Figures and Tables

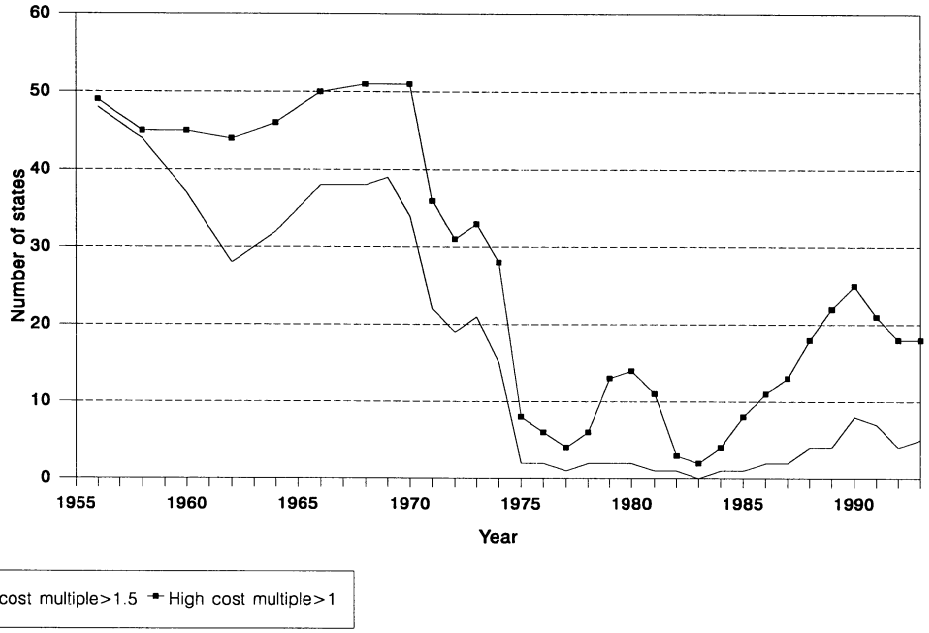
THIS COLLECTION OF FIGURES AND TABLES contains historic and state-by-state information related to the financing of the Unemployment Insurance system. Included are data on the high cost multiple, the relationship between trust fund solvency and benefit recipiency, federal and state tax rates and tax collections, the reserve ratio, state taxable wage bases, and federal loans to state UI trust funds.

FIGURE A-1. High Cost Multiple for the Overall UI System, 1955-1993



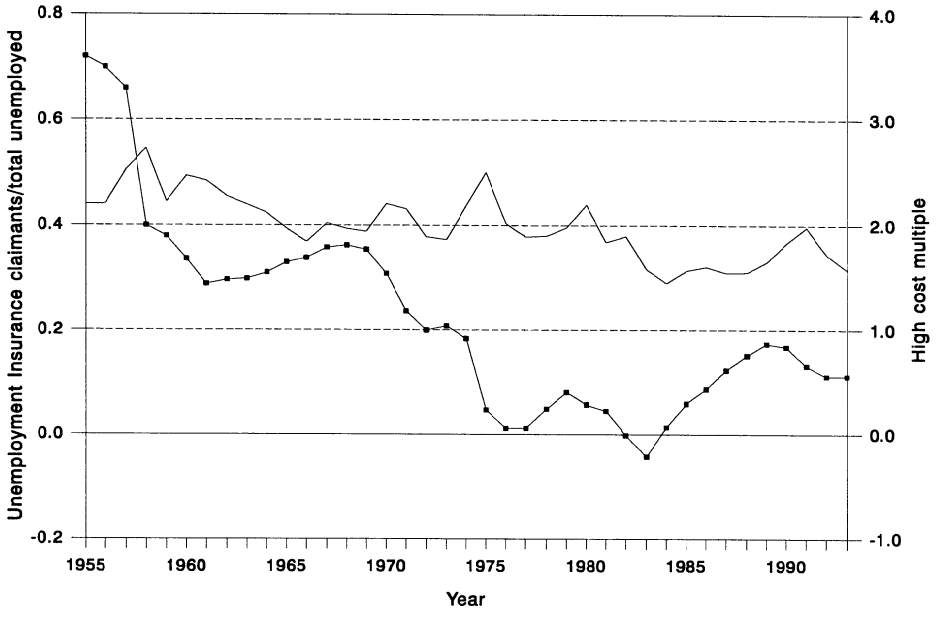
NOTES: Data are for all 50 states and the District of Columbia. Data are included for Puerto Rico beginning in 1961 and for the Virgin Islands beginning in 1978.
SOURCES: U.S. Department of Labor (1994c) and U.S. General Accounting Office (1988).

FIGURE A-2. States with Adequate Reserves as Measured by High Cost Multiple, 1955-1993



NOTES: Data are for all 50 states and the District of Columbia. Data are included for Puerto Rico beginning in 1961 and for the Virgin Islands beginning in 1978.
SOURCES: U.S. Department of Labor (1994c) and U.S. General Accounting Office (1988).

FIGURE A-3. Relationship Between Recipiency and Solvency, 1955-1993



SOURCES: Council of Economic Advisors (1994) and U.S. Department of Labor (1994c).

TABLE A-1. Federal Unemployment Tax Act Provisions, 1939-1993

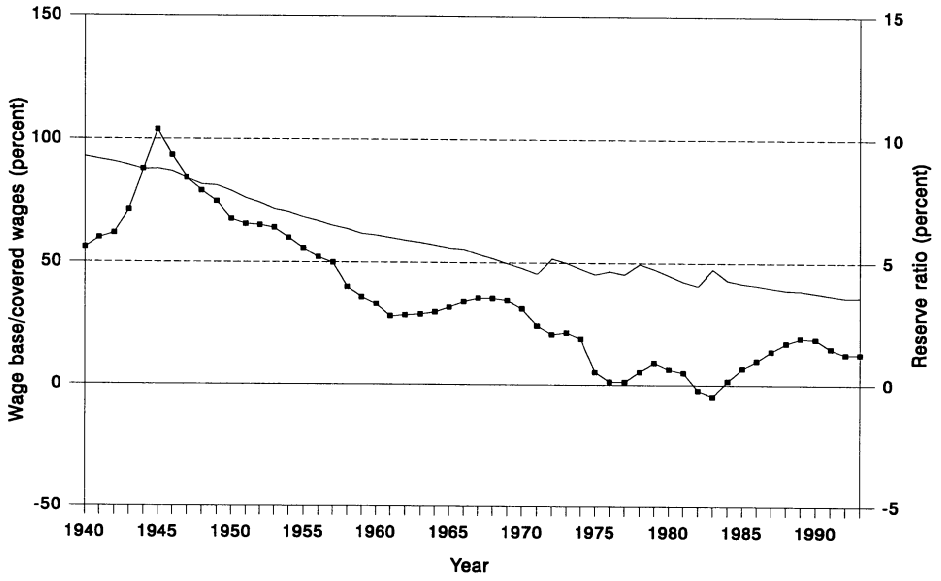
Year Effective	Gross FUTA Tax Rate (percent)	Offsetting Credit (percent)	Potential Net Tax Rate (percent)	FUTA Wage Base (dollars)	Inflation-Adjusted per Worker Cost (1993 dollars[a])
1939	3.00	2.7	0.30	3,000	94
1960	3.10	2.7	0.40	3,000	59
1970	3.20	2.7	0.50	3,000	56
1972	3.20	2.7	0.50	4,200	72
1973	3.28[b]	2.7	0.58	4,200	79
1974	3.20	2.7	0.50	4,200	62
1977	3.40[c]	2.7	0.70	4,200	70
1978	3.40	2.7	0.70	6,000	93
1983	3.50	2.7	0.80	7,000	81
1985	6.20	5.4	0.80	7,000	75
1993	6.20	5.4	0.80	7,000	56

[a] The calculation of the 1993 price index is based on 11 months of data.

[b] Reflects an 0.08 percent increase in federal unemployment tax in 1973 only to pay for additional benefit costs.

[c] A temporary surtax was enacted in 1977 for the Extended Benefits program; it was extended in 1987 and again in 1990. It is due to expire in January 1995.

FIGURE A-4. Reserve Ratio and FUTA Wage Base, 1940-1993



NOTES: The reserve ratio is net reserves as a percentage of total covered wages. The FUTA wage base is relative to total covered wages.
SOURCE: U.S. Department of Labor (1994c).

TABLE A-2. Reserve Ratios, by State, 1993

State	Reserve Ratio	State	Reserve Ratio
Puerto Rico	8.39	North Dakota	1.59
Virgin Islands	6.60	Tennessee	1.58
Oregon	4.63	Kentucky	1.57
Vermont	4.37	Rhode Island	1.56
Alaska	4.32	Nebraska	1.49
Wyoming	4.08	West Virginia	1.49
Washington	4.05	Florida	1.45
Idaho	3.49	Arizona	1.26
Iowa	3.20	South Dakota	1.23
Delaware	3.05	Colorado	1.15
Kansas	3.03	Pennsylvania	1.12
Hawaii	3.01	Virginia	1.01
New Mexico	2.91	Ohio	0.88
Wisconsin	2.87	Arkansas	0.87
Utah	2.82	California	0.87
Mississippi	2.74	Illinois	0.71
North Carolina	2.60	Maine	0.62
Louisiana	2.47	Minnesota	0.59
New Jersey	2.23	Maryland	0.54
Oklahoma	2.13	Michigan	0.42
Indiana	2.05	Texas	0.30
Alabama	1.94	New York	0.07
Montana	1.91	District of Columbia	0.05
Georgia	1.79	Connecticut	0.00
South Carolina	1.77	Massachusetts	0.00
New Hampshire	1.71	Missouri	0.00
Nevada	1.68		

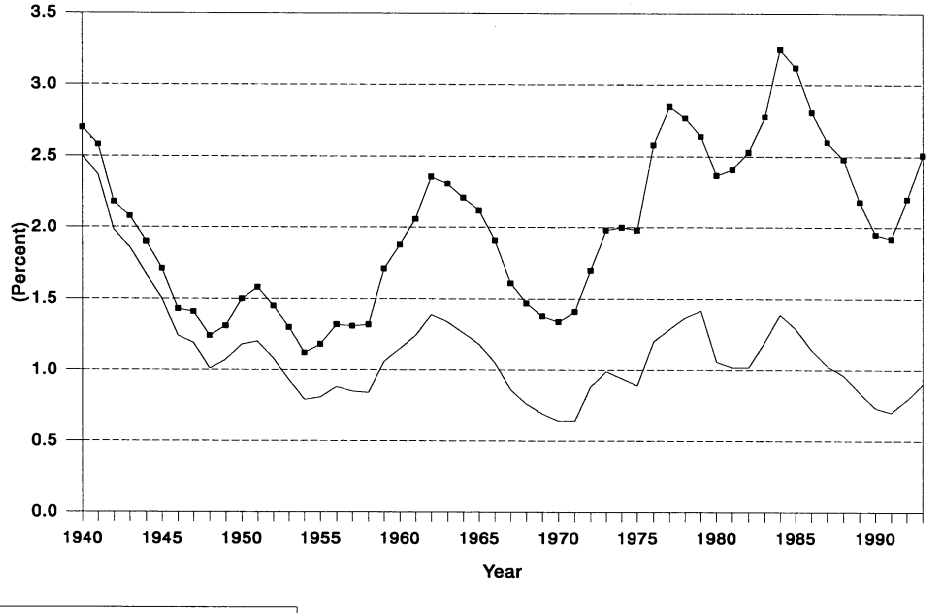
SOURCE: U.S. Department of Labor (1994c).

TABLE A-3. State Taxable Wage Bases, by State, 1994

State	Taxable Wage Base (dollars)	State	Taxable Wage Base (dollars)
Hawaii	25,000	Ohio	8,750
Alaska	23,800	Delaware	8,500
Virgin Islands	22,000	Georgia	8,500
Idaho	20,400	Louisiana	8,500
Washington	19,900	Maryland	8,500
Oregon	19,000	Missouri	8,500
New Jersey	17,200	Alabama	8,000
Rhode Island	16,400	Kansas	8,000
Utah	16,200	Kentucky	8,000
Nevada	15,900	New Hampshire	8,000
Minnesota	15,100	Pennsylvania	8,000
Montana	15,100	Vermont	8,000
Iowa	13,900	Virginia	8,000
North Carolina	13,200	West Virginia	8,000
New Mexico	13,100	Arizona	7,000
North Dakota	13,000	California	7,000
Wyoming	11,400	Florida	7,000
Massachusetts	10,800	Indiana	7,000
Oklahoma	10,700	Maine	7,000
Wisconsin	10,500	Mississippi	7,000
Colorado	10,000	Nebraska	7,000
District of Columbia	9,500	New York	7,000
Michigan	9,500	Puerto Rico	7,000
Arkansas	9,000	South Carolina	7,000
Connecticut	9,000	South Dakota	7,000
Illinois	9,000	Tennessee	7,000
Texas	9,000		

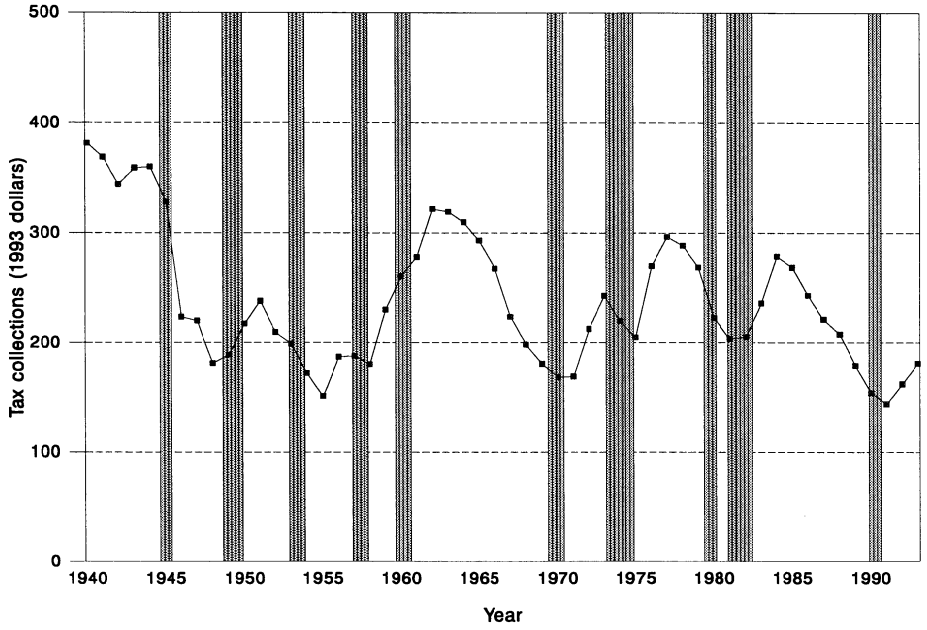
SOURCE: U.S. Department of Labor (1994a).

FIGURE A-5. Average Employer State Tax Rate (as a Percentage of Taxable and Total Wages), 1940-1993



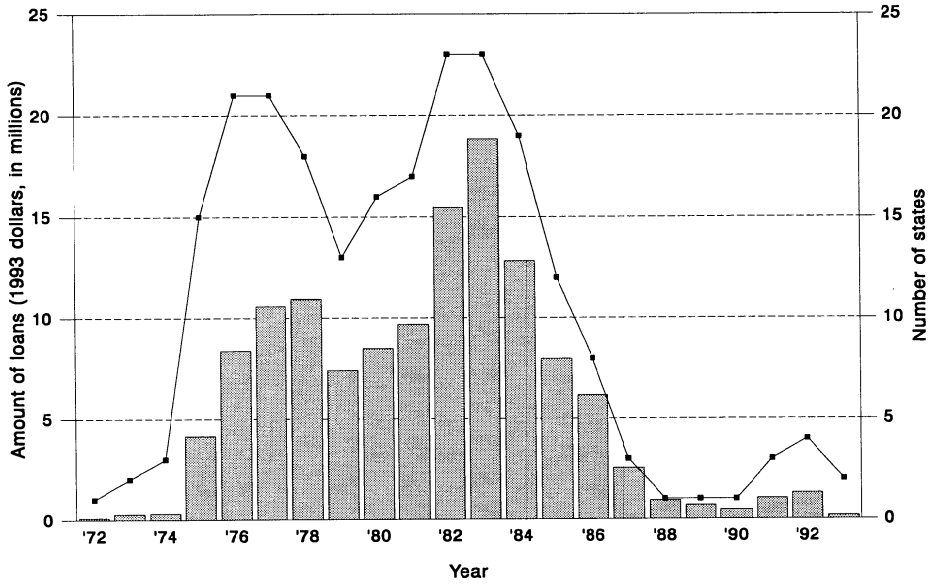
SOURCE: U.S. Department of Labor (1994c).

FIGURE A-6. State Unemployment Insurance Tax Collections per Worker, 1940-1993 (constant 1993 dollars)



NOTE: Shaded regions represent recession from peak to trough.
SOURCE: U.S. Department of Labor (1994c).

FIGURE A-7. Amount of Federal Loans and Number of States with Outstanding Loans, 1972-1993 (constant 1993 dollars)



SOURCE: U.S. Department of Labor (1994c).

Appendix B / Benefits: Background Figures and Tables

THIS COLLECTION OF FIGURES AND TABLES contains historic and state-by-state information related to Unemployment Insurance benefits and benefit claimants. Included are data on demographic characteristics of claimants, benefit recipiency rates, the ratio of UI claimants to job losers, duration of benefit payments and unemployment spells, the percentage of claimants who exhaust benefits, total UI benefits paid by program type, weekly benefit amounts, and selected eligibility requirements.

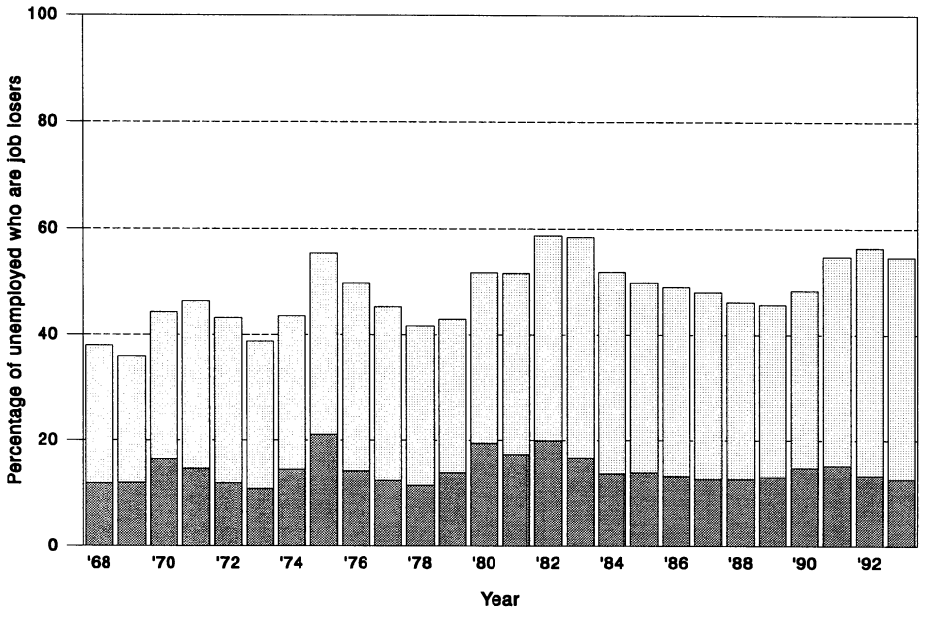
TABLE B-1. Demographic Characteristics, 1993 (percent)

Characteristic	Civilian Labor Force	Total Unemployed	UI Claimants
Age			
16 to 34	43	58	42
35 to 54	45	34	46
55 and over	12	8	12
Gender			
Men	54	56	60
Women	46	44	40
Race			
White	85	75	N.A.
Black	11	21	N.A.
Other	4	4	N.A.

NOTE: "N.A." indicates data are not available.

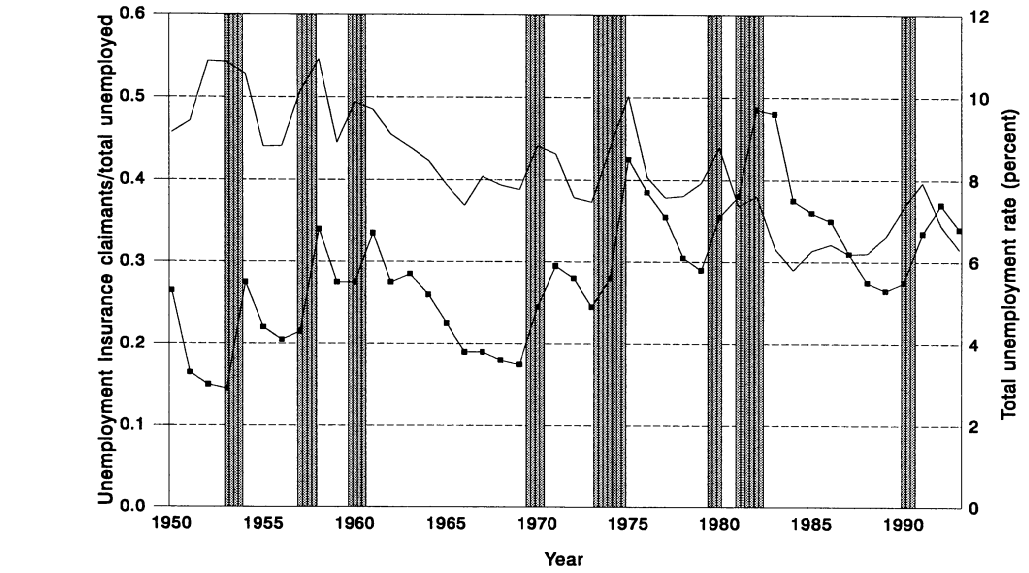
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics (1994a) and unpublished Unemployment Insurance data.

FIGURE B-1. Percentage of Unemployed Who Are Job Losers, 1968-1993



SOURCE: Council of Economic Advisors (1994).

FIGURE B-2. Recipiency Rate for Regular State UI Programs and Total Unemployment Rate, 1950-1993



NOTE: Shaded regions represent recession from peak to trough.
SOURCES: Council of Economic Advisors (1994) and U.S. Department of Labor (1994c).

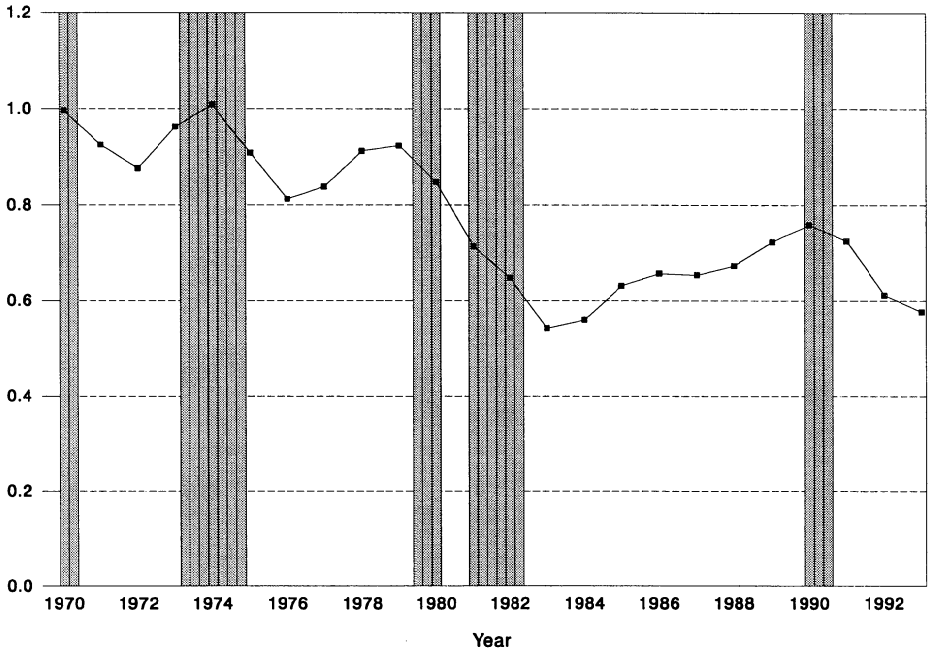
TABLE B-2. Ratio of Unemployment Insurance Claimants to Total Unemployed, by State, 1993

State	IU/TU	State	IU/TU
Alaska	63.6	Florida	30.1
Hawaii	53.1	North Dakota	30.0
Vermont	53.1	Michigan	29.8
District of Columbia	45.3	Missouri	29.4
Connecticut	45.0	Colorado	28.5
Washington	44.4	Wyoming	28.5
Oregon	43.3	Arizona	28.3
Idaho	40.5	Mississippi	27.7
Pennsylvania	39.9	Kentucky	27.5
Wisconsin	39.8	Maryland	27.5
Rhode Island	39.7	North Carolina	27.2
Montana	38.9	Utah	27.0
New Jersey	38.7	Maine	26.2
Arkansas	37.6	South Carolina	25.4
Massachusetts	36.5	Ohio	24.9
Iowa	36.4	West Virginia	23.5
Nebraska	35.8	Alabama	22.5
California	34.6	Louisiana	21.8
New York	34.5	Texas	21.4
Tennessee	33.7	Georgia	21.3
Puerto Rico	33.0	Oklahoma	21.1
Delaware	32.1	New Mexico	20.7
Nevada	32.0	Indiana	20.6
Illinois	31.8	New Hampshire	20.3
Kansas	31.8	Virginia	17.0
Minnesota	31.6	South Dakota	15.3

NOTE: Data for the Virgin Islands are not available.

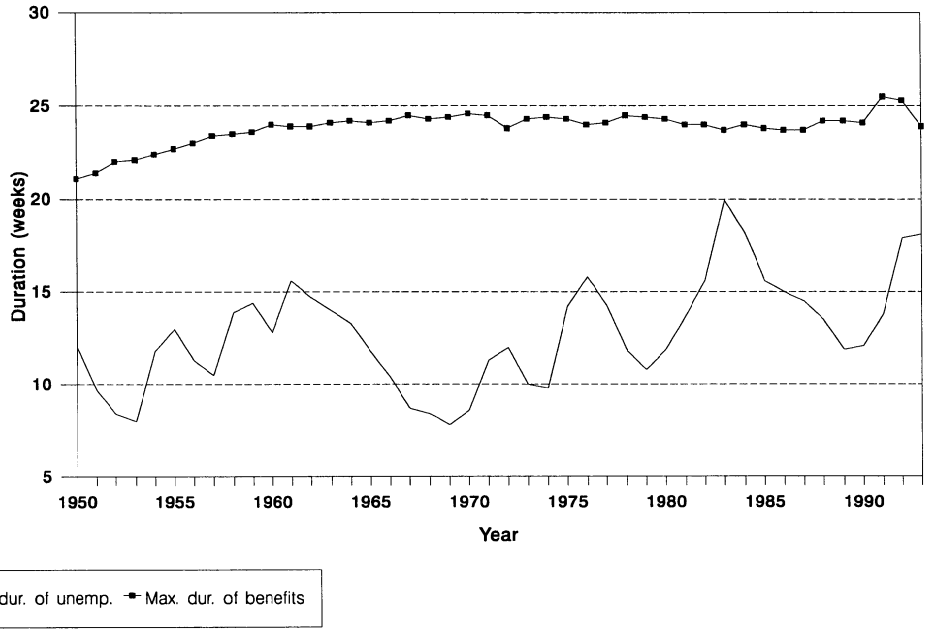
SOURCE: U.S. Department of Labor (1994b).

FIGURE B-3. Ratio of UI Claimants to Job Losers, 1970-1993



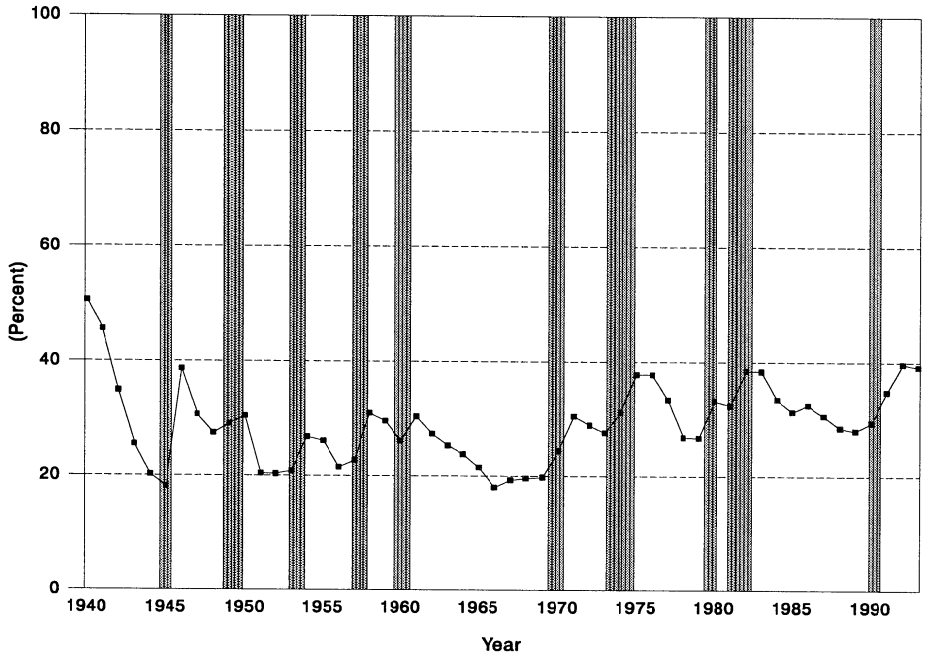
NOTE: Shaded regions represent recession from peak to trough.
SOURCE: Council of Eccnomic Advisors (1994).

FIGURE B-4. Duration of Unemployment and Potential Duration of UI Benefits (in weeks), 1950-1993



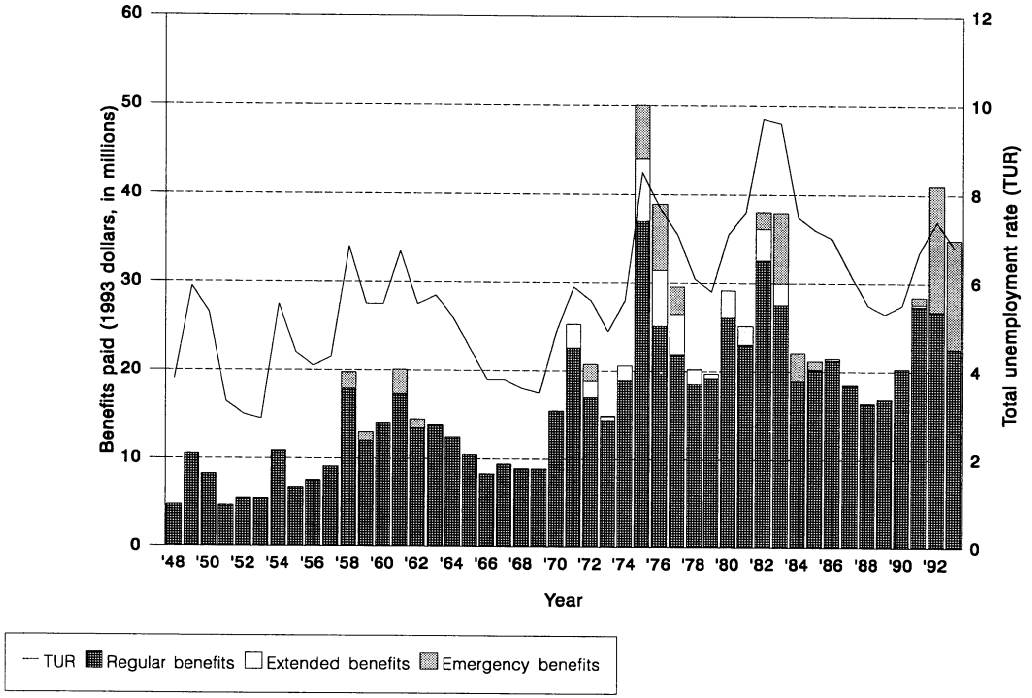
NOTES: Lines denote the average curation of unemployment and the potential maximum duration of benefits. The 1979 figure for duration of benefits was substituted for erroneous data.
SOURCES: Council of Economic Advisors (1994) and U.S. Department of Labor (1994c).

FIGURE B-5. Percentage of UI Claimants Exhausting Benefits, 1940-1993



NOTE: Shaded regions represent recession from peak to trough.
SOURCE: U.S. Department of Labor (1994c).

FIGURE B-6. Unemployment Insurance Benefits Paid, 1948-1993 (constant 1993 dollars)



SOURCE: U.S. Department of Labor, unpublished data.

TABLE B-3. Weekly Benefit Amount, by State, 1993

State	Weekly Benefit Amount (dollars)	State	Weekly Benefit Amount (dollars)
Hawaii	252	West Virginia	167
Connecticut	234	Oklahoma	164
Massachusetts	234	Wyoming	164
New Jersey	224	Maine	163
District of Columbia	223	Vermont	163
Michigan	215	Idaho	162
Rhode Island	211	Arkansas	158
Minnesota	210	California	156
Pennsylvania	210	Kentucky	156
New York	200	Montana	151
Illinois	195	Georgia	150
Washington	192	North Dakota	150
Kansas	189	Arizona	149
Colorado	186	Missouri	149
Texas	184	South Carolina	147
Delaware	183	New Mexico	144
Ohio	183	Indiana	142
Wisconsin	183	Iowa	142
Utah	181	New Hampshire	142
Maryland	180	Nebraska	138
Oregon	180	South Dakota	131
Virgin Islands	177	Tennessee	131
Nevada	175	Alabama	129
Alaska	171	Mississippi	127
Virginia	169	Louisiana	119
North Carolina	168	Puerto Rico	89
Florida	167		

SOURCE: U.S. Department of Labor (1994c).

TABLE B-4. Minimum Qualifying Requirements for Minimum Unemployment Insurance Benefits and Minimum Duration, by State, 1994

State	Required Earnings in Base Period	Minimum Work Required[a]	Minimum Benefits	
			Weekly Benefit Amount[b]	Weeks[c]
Alabama	$1,032	X	$22	15+
Alaska	1,000	X	44 to 68	16
Arizona	1,500	X	40	12+
Arkansas	1,215	X	45[d]	9
California	1,125	—	40	14+
Colorado	1,000	—	25	13+
Connecticut	600	X	15 to 22	26
Delaware	0	—	20	24
District of Columbia	1,950	X	50	20
Florida	400	X	10	10
Georgia	1,350	X	37	9+
Hawaii	130	X	5	26
Idaho	1,430	X	44	10
Illinois	1,600	X	51	26
Indiana	2,500	X	50	14
Iowa	1,090	X	31 to 38	11+
Kansas	1,860	X	62[d]	10
Kentucky	1,500	X	22	15
Louisiana	1,200	X	10	8
Maine	2,286	X	35	21+ to 22
Maryland	900	X	25 to 33	26
Massachusetts	2,400	—	14 to 21	10+ to 30
Michigan	1,340	X	42	15
Minnesota	1,250	X	38	10+
Mississippi	1,200	X	30	13+
Missouri	1,500	X	45	11+
Montana	1,318	X	54	8
Nebraska	1,200	X	20	20
Nevada	600	X	16	12+
New Hampshire	2,800	X	32	26
New Jersey	2,460	X	69	15
New Mexico	1,285	X	39[d]	19+
New York	1,600/1,200[e]	X	40	26
North Carolina	2,324	X	22	13 to 26
North Dakota	2,795	X	43	12
Ohio	1,702	X	42	20
Oklahoma	4,160	X	16	20+

(continued)

TABLE B-4. (continued)

State	Required Earnings in Base Period	Minimum Work Required[a]	Minimum Benefits: Weekly Benefit Amount[b]	Minimum Benefits: Weeks[c]
Oregon	$1,000	X	$66[d]	5+
Pennsylvania	1,320	X	35 to 40	16
Puerto Rico	280	X	7	26
Rhode Island	1,780	X	41 to 51	15+
South Carolina	900	X	20	15
South Dakota	1,288	X	28	18+
Tennessee	1,480	X	30	12+
Texas	1,517	X	41	9+
Utah	1,800	X	17	10
Vermont	1,628	—	36	26
Virginia	3,250	X	65	12
Virgin Islands	1,287	X	32	13+
Washington	0	—	73[d]	16+ to 30
West Virginia	2,200	X	24	26
Wisconsin	1,350	X	46	12
Wyoming	1,650	X	40	12 to 26

SOURCE: U.S. Department of Labor (1994a, 3-27 to 3-29, 3-45 to 3-47).

[a] An "X" indicates that a state directly or indirectly requires work in at least 2 quarters of the base year. States with a dash (—) have the minimum work requirement specified as an earnings amount.

[b] When two amounts are given, the lower amount is for a single individual and the higher amount includes dependents' allowances for 1 dependent child and/or nonworking spouse.

[c] A range of weeks is presented when the calculation for minimum weeks varies with qualifying earnings.

[d] Minimum benefit amount is computed annually as a percentage of average weekly wage.

[e] The higher amount resulting from two formulas is used to determine an individual's required base period earnings.

TABLE B-5. Qualifying Requirements for Maximum Potential Unemployment Insurance Benefits and Maximum Duration, by State, 1994

States	Required Earnings in Base Period	Maximum Benefits	
		Weekly Benefit Amount	Weeks
Alabama	$12,870	$165	26
Alaska	22,250	212-284	26[a]
Arizona	14,429	185	26
Arkansas	19,812	254[b]	26
California	11,960	230	26[a]
Colorado	27,144	261[b]	26
Connecticut	12,680	317-367[b]	26[a]
Delaware	12,190	265[c]	26
District of Columbia	17,420	335[b]	26
Florida	26,000	250	26
Georgia	19,238	185	26
Hawaii	8,762	337[b]	26[a]
Idaho	19,857	235[b]	26
Illinois	12,285	235-311[b]	26
Indiana	15,786	170-192	26
Iowa	16,458	211-259[b]	26
Kansas	19,500	250[b]	26
Kentucky	19,283	229[b]	26
Louisiana	17,428	181[b]	26
Maine	15,444	198-297[b]	26
Maryland	8,028	223	26
Massachusetts	27,083	325-487[b]	30[a]
Michigan	19,810	293[b]	26[a]
Minnesota	23,790	305[b]	26[a]
Mississippi	12,870	165	26
Missouri	13,650	175	26
Montana	21,700	217[b]	26
Nebraska	12,009	154	26
Nevada	17,940	230[b]	26
New Hampshire	24,500	197	26
New Jersey	20,242	347[b]	26
New Mexico	8,537	197[b]	26
New York	11,980	300	26[a]
North Carolina	21,996	282[b]	26
North Dakota	19,302	232[b]	26
Ohio	12,376	238-319	26
Oklahoma	15,405	237	26

(continued)

TABLE B-5. (continued)

States	Required Earnings in Base Period	Maximum Benefits: Weekly Benefit Amount	Maximum Benefits: Weeks
Oregon	$22,720	$285[b]	26
Pennsylvania	13,080	329-337[b]	26
Puerto Rico	5,320	133[b]	26
Rhode Island	22,389	310-387[b]	26
South Carolina	15,834	203[b]	26
South Dakota	13,104	168[b]	26
Tennessee	19,240	185	26
Texas	23,589	245	26
Utah	23,882	248[b]	26
Vermont	9,405	209	26
Virginia	20,800	208	26
Virgin Islands	16,458	211[b]	26
Washington	30,600	340[b]	30
West Virginia	26,500	280[b]	26
Wisconsin	15,795	243	26
Wyoming	18,333	220[b]	26

SOURCE: U.S. Department of Labor (1994a, 3-35 to 3-37, 3-45 to 3-47).

[a] Benefits are extended when the unemployment rate in the state reaches a specified level.

[b] Maximum benefit amount is indexed with the state average weekly wage.

[c] Maximum benefit amount varies with trust fund balance.

Appendix C / Benefits: State-by-State Comparison Tables

THIS COLLECTION OF TABLES reports detailed information on state-by-state benefit levels, durations, and replacement rates for hypothetical individuals with different employment characteristics. These individuals vary across hourly wage level, hours of work per week, and weeks of work per year. The tables report data for all states except Michigan for individuals with any combination of the following characteristics:

Hourly wage rate:	$4.25 or $10.00
Hours of work per week:	20 or 40
Weeks of work per year:	26 or 52

Chapter 10 in this report discusses variations in benefit level and duration for workers who vary across these dimensions and also for workers with dependents. In addition, Chapter 10 contains figures that display *average* benefit amounts, durations, and replacement rates for various individuals across all states in which they are eligible for benefits.

SOURCE AND METHODS

The source for all tables in Appendix C is a series of calculations performed by the staff of the Advisory Council on Unemployment Compensation. These calculations were based on eligibility, benefit level, and benefit duration criteria across states, as reported in U.S. Department of Labor (1994a).

Calculations were made systematically for hypothetical individuals with different characteristics. All benefit levels refer to pre-tax benefits, and all replacement rates relate pre-tax benefits to pre-tax earnings. For a small number of states, the benefit amounts reported are approximate, based on estimated equations that were derived from state benefit tables.

Only state laws were considered in making the calculations reported in these tables. Hence, case law and nonlegislative regulations were not taken into account; it is possible that such factors could have affected some state eligibility or benefit calculations.

TABLE C-1. Benefit Simulation for Single Individual Working Full-time, Full-year and Earning $4.25 per Hour, 1994

State	Weekly Benefit (dollars)	Duration (weeks)	Total Potential Benefit (dollars)	Weekly Repl. Rate (percent)	Duration-adjusted Repl. Rate (percent)
Alabama	165	18	2,970	97	67
Alaska	107	26	2,782	63	63
Arizona	88	26	2,288	52	52
Arkansas	85	26	2,210	50	50
California	85	26	2,210	50	50
Colorado	102	26	2,652	60	60
Connecticut	85	26	2,210	50	50
Delaware	96	26	2,496	56	56
District of Columbia	85	26	2,210	50	50
Florida	85	26	2,210	50	50
Georgia	88	25	2,200	52	50
Hawaii	106	26	2,756	62	62
Idaho	85	26	2,210	50	50
Illinois	84	26	2,184	49	49
Indiana	98	25	2,450	58	55
Iowa	96	26	2,496	56	56
Kansas	93	26	2,418	55	55
Kentucky	105	26	2,730	62	62
Louisiana	78	26	2,028	46	46
Maine	94	26	2,444	55	55
Maryland	93	26	2,418	55	55
Massachusetts	85	30	2,550	50	58
Minnesota	85	26	2,210	50	50
Mississippi	85	26	2,210	50	50
Missouri	99	26	2,574	58	58
Montana	88	26	2,288	52	52
Nebraska	92	26	2,392	54	54
Nevada	88	26	2,288	52	52
New Hampshire	100	26	2,600	59	59
New Jersey	102	26	2,652	60	60
New Mexico	85	26	2,210	50	50
New York	85	26	2,210	50	50
North Carolina	85	26	2,210	50	50
North Dakota	85	26	2,210	50	50
Ohio	85	26	2,210	50	50
Oklahoma	88	26	2,288	52	52

(continued)

TABLE C-1. (continued)

State	Weekly Benefit (dollars)	Duration (weeks)	Total Potential Benefit (dollars)	Weekly Repl. Rate (percent)	Duration-adjusted Repl. Rate (percent)
Oregon	110	26	2,860	65	65
Pennsylvania	94	26	2,444	55	55
Puerto Rico	85	26	2,210	50	50
Rhode Island	102	26	2,652	60	60
South Carolina	85	26	2,210	50	50
South Dakota	85	26	2,210	50	50
Tennessee	85	26	2,210	50	50
Texas	89	26	2,314	52	52
Utah	85	26	2,210	50	50
Vermont	98	26	2,548	58	58
Virginia	89	25	2,225	52	50
Virgin Islands	85	26	2,210	50	50
Washington	176	17	2,992	104	68
West Virginia	92	26	2,392	54	54
Wisconsin	88	26	2,288	52	52
Wyoming	88	26	2,288	52	52

NOTE: Data are not available for the state of Michigan.

SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a).

TABLE C-2. Benefit Simulation for Single Individual Working Full-time, Full-year and Earning $10.00 per Hour, 1994

State	Weekly Benefit (dollars)	Duration (weeks)	Total Potential Benefit (dollars)	Weekly Repl. Rate (percent)	Duration-adjusted Repl. Rate (percent)
Alabama	165	26	4,290	41	41
Alaska	202	26	5,252	51	51
Arizona	185	26	4,810	46	46
Arkansas	200	26	5,200	50	50
California	158	26	4,108	40	40
Colorado	240	26	6,240	60	60
Connecticut	200	26	5,200	50	50
Delaware	226	26	5,876	57	57
District of Columbia	200	26	5,200	50	50
Florida	200	26	5,200	50	50
Georgia	185	26	4,810	46	46
Hawaii	248	26	6,448	62	62
Idaho	200	26	5,200	50	50
Illinois	198	26	5,148	50	50
Indiana	170	26	4,420	43	43
Iowa	212	26	5,486	53	53
Kansas	221	26	5,746	55	55
Kentucky	229	26	5,954	57	57
Louisiana	181	26	4,706	45	45
Maine	192	26	4,992	48	48
Maryland	217	26	5,642	54	54
Massachusetts	200	30	6,000	50	58
Minnesota	200	26	5,200	50	50
Mississippi	165	26	4,290	41	41
Missouri	175	26	4,550	44	44
Montana	208	26	5,408	52	52
Nebraska	154	26	4,004	39	39
Nevada	208	26	5,408	52	52
New Hampshire	179	26	4,654	45	45
New Jersey	240	26	6,240	60	60
New Mexico	197	26	5,122	49	49
New York	200	26	5,200	50	50
North Carolina	200	26	5,200	50	50
North Dakota	200	26	5,200	50	50
Ohio	200	26	5,200	50	50
Oklahoma	208	20	4,160	52	40

(continued)

TABLE C-2. (continued)

State	Weekly Benefit (dollars)	Duration (weeks)	Total Potential Benefit (dollars)	Weekly Repl. Rate (percent)	Duration-adjusted Repl. Rate (percent)
Oregon	260	26	6,760	65	65
Pennsylvania	213	26	5,538	53	53
Puerto Rico	133	26	3,458	33	33
Rhode Island	240	26	6,240	60	60
South Carolina	200	26	5,200	50	50
South Dakota	168	26	4,368	42	42
Tennessee	185	26	4,810	46	46
Texas	209	26	5,434	52	52
Utah	200	26	5,200	50	50
Vermont	209	26	5,434	52	52
Virginia	208	25	5,200	52	50
Virgin Islands	200	26	5,200	50	50
Washington	340	20	6,800	85	65
West Virginia	218	26	5,668	55	55
Wisconsin	208	26	5,408	52	52
Wyoming	208	25	5,200	52	50

NOTE: Data are not available for the state of Michigan.

SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a).

TABLE C-3. Benefit Simulation for Single Individual Working Half-time, Full-year and Earning $4.25 per Hour, 1994

State	Weekly Benefit (dollars)	Duration (weeks)	Total Potential Benefit (dollars)	Weekly Repl. Rate (percent)	Duration-adjusted Repl. Rate (percent)
Alabama	93	16	1,488	109	67
Alaska	71	26	1,846	84	84
Arizona	44	26	1,144	52	52
Arkansas	45	26	1,170	53	53
California	48	26	1,248	56	56
Colorado	51	26	1,326	60	60
Connecticut	42	26	1,092	49	49
Delaware	48	26	1,248	56	56
District of Columbia	0	0	0	0	0
Florida	42	26	1,092	49	49
Georgia	44	25	1,100	52	50
Hawaii	53	26	1,378	62	62
Idaho	0	0	0	0	0
Illinois	51	26	1,600	60	60
Indiana	54	23	1,242	64	56
Iowa	48	26	1,248	56	56
Kansas	62	24	1,488	73	67
Kentucky	52	26	1,352	61	61
Louisiana	39	26	1,014	46	46
Maine	44	26	1,144	52	52
Maryland	47	26	1,222	55	55
Massachusetts	42	30	1,260	49	57
Minnesota	42	26	1,092	49	49
Mississippi	42	26	1,092	49	49
Missouri	49	26	1,274	58	58
Montana	54	26	1,404	64	64
Nebraska	48	26	1,248	56	56
Nevada	44	26	1,144	52	52
New Hampshire	0	0	0	0	0
New Jersey	0	0	0	0	0
New Mexico	42	26	1,092	49	49
New York	43	26	1,118	51	51
North Carolina	42	26	1,092	49	49
North Dakota	0	0	0	0	0
Ohio	0	0	0	0	0
Oklahoma	44	26	1,144	52	52

(continued)

TABLE C-3. (continued)

State	Weekly Benefit (dollars)	Duration (weeks)	Total Potential Benefit (dollars)	Weekly Repl. Rate (percent)	Duration-adjusted Repl. Rate (percent)
Oregon	66	22	1,452	78	66
Pennsylvania	47	26	1,222	55	55
Puerto Rico	42	26	1,092	49	49
Rhode Island	51	26	1,326	60	60
South Carolina	42	26	1,092	49	49
South Dakota	42	26	1,092	49	49
Tennessee	42	26	1,092	49	49
Texas	45	26	1,170	53	53
Utah	42	26	1,092	49	49
Vermont	0	0	0	0	0
Virginia	0	0	0	0	0
Virgin Islands	42	26	1,092	49	49
Washington	88	17	2,190	104	68
West Virginia	46	26	1,196	54	54
Wisconsin	0	0	0	0	0
Wyoming	44	26	1,144	52	52

NOTE: Data are not available for the state of Michigan.

SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a).

TABLE C-4. Benefit Simulation for Single Individual Working Half-time, Full-year and Earning $10.00 per Hour, 1994

State	Weekly Benefit (dollars)	Duration (weeks)	Total Potential Benefit (dollars)	Weekly Repl. Rate (percent)	Duration-adjusted Repl. Rate (percent)
Alabama	165	21	3,465	83	67
Alaska	119	26	3,094	60	60
Arizona	104	26	2,704	52	52
Arkansas	100	26	2,600	50	50
California	96	26	2,496	48	48
Colorado	120	26	3,120	60	60
Connecticut	100	26	2,600	50	50
Delaware	113	26	2,938	57	57
District of Columbia	100	26	2,600	50	50
Florida	100	26	2,600	50	50
Georgia	104	25	2,600	52	50
Hawaii	124	26	3,224	62	62
Idaho	100	26	2,600	50	50
Illinois	99	26	2,574	50	50
Indiana	114	26	2,964	57	57
Iowa	113	26	2,938	57	57
Kansas	110	26	2,860	55	55
Kentucky	123	26	3,198	62	62
Louisiana	92	26	2,392	46	46
Maine	112	26	2,912	56	56
Maryland	109	26	2,834	55	55
Massachusetts	100	30	3,000	50	58
Minnesota	100	26	2,600	50	50
Mississippi	100	26	2,600	50	50
Missouri	117	26	3,042	59	59
Montana	104	26	2,704	52	52
Nebraska	108	26	2,808	54	54
Nevada	104	26	2,704	52	52
New Hampshire	114	26	2,964	57	57
New Jersey	120	26	3,120	60	60
New Mexico	100	26	2,600	50	50
New York	100	26	2,600	50	50
North Carolina	100	26	2,600	50	50
North Dakota	100	26	2,600	50	50
Ohio	100	26	2,600	50	50
Oklahoma	104	26	2,704	52	52

(continued)

TABLE C-4. (continued)

State	Weekly Benefit (dollars)	Duration (weeks)	Total Potential Benefit (dollars)	Weekly Repl. Rate (percent)	Duration-adjusted Repl. Rate (percent)
Oregon	130	26	3,380	65	65
Pennsylvania	110	26	2,860	55	55
Puerto Rico	100	26	2,600	50	50
Rhode Island	120	26	3,120	60	60
South Carolina	100	26	2,600	50	50
South Dakota	100	26	2,600	50	50
Tennessee	100	26	2,600	50	50
Texas	105	26	2,730	53	53
Utah	100	26	2,600	50	50
Vermont	116	26	3,016	58	58
Virginia	105	25	2,625	53	50
Virgin Islands	100	26	2,600	50	50
Washington	208	17	3,536	104	68
West Virginia	109	26	2,834	55	55
Wisconsin	104	26	2,704	52	52
Wyoming	104	26	2,704	52	52

NOTE: Data are not available for the state of Michigan.

SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a).

TABLE C-5. Benefit Simulation for Single Individual Working Full-time, Half-year and Earning $4.25 per Hour, 1994

State	Weekly Benefit (dollars)	Duration (weeks)	Total Potential Benefit (dollars)	Weekly Repl. Rate (percent)
Alabama	165	15	2,475	97
Alaska	71	20	1,420	42
Arizona	88	17	1,496	52
Arkansas	85	17	1,445	50
California	85	26	2,210	50
Colorado	102	14	1,428	60
Connecticut	85	26	2,210	50
Delaware	96	24	2,304	56
District of Columbia	85	26	2,210	50
Florida	85	13	1,105	50
Georgia	88	13	1,144	52
Hawaii	106	26	2,756	62
Idaho	85	16	1,360	50
Illinois	84	26	2,184	49
Indiana	98	14	1,372	58
Iowa	96	15	1,440	56
Kansas	93	16	1,488	55
Kentucky	52	26	1,352	31
Louisiana	39	26	1,014	23
Maine	94	21	1,974	55
Maryland	93	26	2,418	55
Massachusetts	85	19	1,615	50
Minnesota	85	17	1,445	50
Mississippi	85	17	1,445	50
Missouri	99	15	1,485	58
Montana	83	16	1,328	49
Nebraska	92	20	1,840	54
Nevada	88	17	1,496	52
New Hampshire	51	26	1,326	30
New Jersey	102	20	2,040	60
New Mexico	85	26	2,210	50
New York	85	26	2,210	50
North Carolina	85	16	1,360	50
North Dakota	68	14	952	40
Ohio	85	26	2,210	50
Oklahoma	88	20	1,760	52

(continued)

TABLE C-5. (continued)

State	Weekly Benefit (dollars)	Duration (weeks)	Total Potential Benefit (dollars)	Weekly Repl. Rate (percent)
Oregon	66	22	1,452	39
Pennsylvania	94	26	2,444	55
Puerto Rico	85	26	2,210	50
Rhode Island	102	16	1,632	60
South Carolina	85	17	1,445	50
South Dakota	85	18	1,530	50
Tennessee	85	13	1,105	50
Texas	89	13	1,157	52
Utah	85	14	1,190	50
Vermont	98	26	2,548	58
Virginia	0	0	0	0
Virgin Islands	85	17	1,445	50
Washington	176	16	2,816	104
West Virginia	46	26	1,196	27
Wisconsin	88	20	1,760	52
Wyoming	88	15	1,320	52

NOTE: Data are not available for the state of Michigan.

SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a).

TABLE C-6. Benefit Simulation for Single Individual Working Full-time, Half-year and Earning $10.00 per Hour, 1994

State	Weekly Benefit (dollars)	Duration (weeks)	Total Potential Benefit (dollars)	Weekly Repl. Rate (percent)
Alabama	165	21	3,465	41
Alaska	119	20	2,380	30
Arizona	185	19	3,515	46
Arkansas	200	17	3,400	50
California	158	26	4,108	40
Colorado	240	14	3,360	60
Connecticut	200	26	5,200	50
Delaware	226	24	5,424	57
District of Columbia	200	26	5,200	50
Florida	200	13	2,600	50
Georgia	185	14	2,590	46
Hawaii	248	26	6,448	62
Idaho	200	16	3,200	50
Illinois	198	26	5,148	50
Indiana	170	17	2,890	43
Iowa	212	16	3,392	53
Kansas	221	16	3,536	55
Kentucky	123	26	3,198	31
Louisiana	92	26	2,392	23
Maine	192	21	4,032	48
Maryland	217	26	5,642	54
Massachusetts	200	19	3,800	50
Minnesota	200	17	3,400	50
Mississippi	165	21	3,465	41
Missouri	175	20	3,500	44
Montana	197	16	3,152	49
Nebraska	154	23	3,542	39
Nevada	208	17	3,536	52
New Hampshire	114	26	2,964	29
New Jersey	240	20	4,800	60
New Mexico	197	26	5,122	49
New York	200	26	5,200	50
North Carolina	200	16	3,200	50
North Dakota	160	14	2,240	40
Ohio	200	26	5,200	50
Oklahoma	208	20	4,160	52

(continued)

TABLE C-6. (continued)

State	Weekly Benefit (dollars)	Duration (weeks)	Total Potential Benefit (dollars)	Weekly Repl. Rate (percent)
Oregon	130	26	3,380	33
Pennsylvania	213	26	5,538	53
Puerto Rico	133	26	3,458	33
Rhode Island	240	16	3,840	60
South Carolina	200	17	3,400	50
South Dakota	168	21	3,528	42
Tennessee	185	14	2,590	46
Texas	209	13	2,717	52
Utah	200	14	2,800	50
Vermont	209	26	5,434	52
Virginia	208	13	2,704	52
Virgin Islands	200	17	3,400	50
Washington	340	16	5,440	85
West Virginia	109	26	2,834	27
Wisconsin	208	20	4,160	52
Wyoming	208	15	3,120	52

NOTE: Data are not available for the state of Michigan.

SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a).

TABLE C-7. Benefit Simulation for Single Individual Working Half-time, Half-year and Earning $4.25 per Hour, 1994

State	Weekly Benefit (dollars)	Duration (weeks)	Total Potential Benefit (dollars)	Weekly Repl. Rate (percent)
Alabama	93	15	1,395	109
Alaska	54	20	1,080	64
Arizona	44	17	748	52
Arkansas	45	16	720	53
California	48	23	1,104	56
Colorado	51	14	714	60
Connecticut	42	26	1,092	49
Delaware	48	24	1,152	56
District of Columbia	0	0	0	0
Florida	42	13	546	49
Georgia	44	13	572	52
Hawaii	53	26	1,378	62
Idaho	0	0	0	0
Illinois	51	26	1,600	60
Indiana	0	0	0	0
Iowa	48	15	720	56
Kansas	62	12	744	73
Kentucky	26	26	676	31
Louisiana	19	26	494	22
Maine	0	0	0	0
Maryland	47	26	1,222	55
Massachusetts	0	0	0	0
Minnesota	42	18	756	49
Mississippi	42	18	756	49
Missouri	49	15	735	58
Montana	54	16	864	64
Nebraska	48	20	960	56
Nevada	44	17	748	52
New Hampshire	0	0	0	0
New Jersey	0	0	0	0
New Mexico	42	26	1,092	49
New York	43	26	1,118	51
North Carolina	0	0	0	0
North Dakota	0	0	0	0
Ohio	0	0	0	0
Oklahoma	0	0	0	0

(continued)

TABLE C-7. (continued)

State	Weekly Benefit (dollars)	Duration (weeks)	Total Potential Benefit (dollars)	Weekly Repl. Rate (percent)
Oregon	66	11	726	78
Pennsylvania	47	26	1,222	55
Puerto Rico	42	26	1,092	49
Rhode Island	51	16	816	60
South Carolina	42	18	756	49
South Dakota	42	18	756	49
Tennessee	42	13	546	49
Texas	45	13	585	53
Utah	42	14	588	49
Vermont	0	0	0	0
Virginia	0	0	0	0
Virgin Islands	42	18	756	49
Washington	0	0	0	0
West Virginia	24	26	624	28
Wisconsin	0	0	0	0
Wyoming	44	15	660	52

NOTE: Data are not available for the state of Michigan.

SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a).

TABLE C-8. Benefit Simulation for Single Individual Working Half-time, Half-year and Earning $10.00 per Hour, 1994

State	Weekly Benefit (dollars)	Duration (weeks)	Total Potential Benefit (dollars)	Weekly Repl. Rate (percent)
Alabama	165	15	2,475	83
Alaska	78	20	1,560	39
Arizona	104	17	1,768	52
Arkansas	100	17	1,700	50
California	96	26	2,496	48
Colorado	120	14	1,680	60
Connecticut	100	26	2,600	50
Delaware	113	24	2,712	57
District of Columbia	100	26	2,600	50
Florida	100	13	1,300	50
Georgia	104	13	1,352	52
Hawaii	124	26	3,224	62
Idaho	100	16	1,600	50
Illinois	99	26	2,574	50
Indiana	114	14	1,596	57
Iowa	113	15	1,695	57
Kansas	110	16	1,760	55
Kentucky	62	26	1,612	31
Louisiana	46	26	1,196	23
Maine	112	21	2,352	56
Maryland	109	26	2,834	55
Massachusetts	100	19	1,900	50
Minnesota	100	17	1,700	50
Mississippi	100	17	1,700	50
Missouri	117	15	1,755	59
Montana	98	16	1,568	49
Nebraska	108	20	2,160	54
Nevada	104	17	1,768	52
New Hampshire	60	26	1,560	30
New Jersey	120	20	2,400	60
New Mexico	100	26	2,600	50
New York	100	26	2,600	50
North Carolina	100	16	1,600	50
North Dakota	80	14	1,120	40
Ohio	100	26	2,600	50
Oklahoma	104	20	2,080	52

(continued)

TABLE C-8. (continued)

State	Weekly Benefit (dollars)	Duration (weeks)	Total Potential Benefit (dollars)	Weekly Repl. Rate (percent)
Oregon	66	26	1,716	33
Pennsylvania	110	26	2,860	55
Puerto Rico	100	26	2,600	50
Rhode Island	120	16	1,920	60
South Carolina	100	17	1,700	50
South Dakota	100	18	1,800	50
Tennessee	100	13	1,300	50
Texas	105	13	1,365	53
Utah	100	14	1,400	50
Vermont	116	26	3,016	58
Virginia	0	0	0	0
Virgin Islands	100	17	1,700	50
Washington	0	0	0	0
West Virginia	54	26	1,404	27
Wisconsin	104	20	2,080	52
Wyoming	104	15	1,560	52

NOTE: Data are not available for the state of Michigan.

SOURCE: ACUC staff calculations based on data from U.S. Department of Labor (1994a).

Appendix D / Eligibility: Costs of Alternative Requirements

Data were not available at time of publication.

Appendix E / 1994 Findings and Recommendations

Note: The material contained in this appendix is reprinted from Chapter 2 of the first annual report of the Advisory Council on Unemployment Compensation, published in February 1994.

PURPOSE OF THE EXTENDED BENEFITS PROGRAM

Findings

The Council finds that the nature of unemployment has changed since the inception of the Unemployment Insurance system. The length of time that individuals are unemployed, which increases sharply during recessions, has also increased slowly but steadily during non-recessionary times. Workers who have been laid off from their jobs are now less likely to return to their previous jobs than has historically been the case. This indicates an increase in the level of long-term unemployment in the economy.

The Unemployment Insurance system was designed primarily as a means of alleviating the hardship caused by short-term unemployment. The system was never intended to combat long-term unemployment. The purpose of the Unemployment Insurance system, and in particular the Extended Benefits program, must be expanded if the system is to deal effectively with the changing nature of unemployment. In doing so, however, careful consideration must be given to the funding of the system, in order to ensure that expenditures for combatting long-term unemployment do not drain the Unemployment Insurance trust fund reserves. It must also be recognized that while Unemployment Insurance reform is a necessary component of developing effective strategies for dealing with long-term unemployment, other reforms—especially among programs for dislocated workers—will be needed.

Recommendation

The scope of the Extended Benefits program should be expanded to enhance the capacity of the Unemployment Insurance system to provide assistance for long-term unemployed workers as well as short-term unemployed workers. Those individuals who are long-term unemployed should be eligible for extended Unemployment Insurance benefits, provided they are participating in job search activities or in education and training activities, where available and suitable, that enhance their re-employment prospects. To maintain the integrity of the Unemployment Insurance income support system, a separate funding source should be used to finance job search and education and training activities for long-term unemployed workers.*

THE TRIGGER FOR EXTENDED BENEFITS

Findings

The Council finds that receipt of Unemployment Insurance benefits by the unemployed has slowly but steadily declined since at least 1947—the first year for which data on the system are available. In addition to the long-term downward trend in receipt of benefits, there was a pronounced decline in the early 1980s, just as the economy entered a recession.

The reasons behind the decline in the Unemployment Insurance system are many. The long-term decline appears to have been caused by the changing demographics of the labor force, the changing industrial and geographic composition of employment, and a decline in the solvency of states' Unemployment Insurance trust funds. The sharp decline in receipt of benefits in the early 1980s appears to be attributable primarily to changes in federal policies which encouraged the states to increase the solvency of their trust funds by restricting eligibility for Unemployment Insurance benefits and/or increasing employers' tax rates, as well as independent state efforts to improve their trust fund solvency.

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* One member of the Council emphasizes that an increase in employers' payroll taxes should not be used as the funding source. Another member emphasizes that such a recommendation must be considered in the context of reform of dislocated workers programs.

The utilization of the Unemployment Insurance system is measured by the Insured Unemployment Rate (IUR). The IUR is the number of Unemployment Insurance recipients, relative to the number of individuals in UI-covered employment. Since the inception of the Extended Benefits program in 1970, states have been required to use the state IUR as a "trigger" that determines whether or not individuals who have exhausted their regular UI benefits are eligible for Extended Benefits.

Research has shown that the decline in the utilization of the Unemployment Insurance system has caused the IUR to become a less reliable indicator of economic conditions, reducing the likelihood that Extended Benefits will trigger on in states with high unemployment. In addition, just as the IUR was experiencing a marked decline during the recession of the 1980s, the "trigger" level required to become eligible for Extended Benefits was raised.

The combination of the reduction in the IUR and the increase in the trigger level resulted in the failure of the Extended Benefits program to trigger on as unemployment continued to rise during this most recent recession. As a result, Congress found it necessary to pass a series of emergency extensions of Unemployment Insurance benefits. The Council finds that emergency extensions of Unemployment Insurance benefits are extremely inefficient since they are neither well-timed nor well-targeted. Therefore, it is necessary to reform the Extended Benefits program prior to the onset of the next recession, in order to minimize the need for future emergency legislation.

The Council has considered a variety of measures that could be used to trigger the Extended Benefits program. While no perfect measures exist, the best available evidence about the condition of the overall labor market within a state is the Total Unemployment Rate (TUR), which indicates the supply of individuals who are unable to find work. It should be noted, however, that beginning in 1994, the TUR rates will be affected by the redesign of the Current Population Survey. An alternative measure of the labor market conditions that are faced by Unemployment Insurance recipients is the Adjusted Insured Unemployment Rate (AIUR), which is the IUR adjusted to include those individuals who have exhausted their regular Unemployment Insurance benefits.

The Council finds that while substate (or regional) data are available on some measures of local labor market conditions, these data are extremely unreliable measures of the true conditions that the unemployed face.

Furthermore, there would be substantial administrative difficulties in using either substate or regional data for triggering Extended Benefits.

The Council finds that, in addition to problems with the triggers that have been used to determine whether or not Extended Benefits are available within a state, the thresholds built into the triggers have been problematic. These thresholds require that a state's unemployment rate (whether measured by the IUR or the TUR) exceed the level that prevailed over the previous two-year period (by a factor of 120 percent for the IUR or 110 percent for the TUR).

The threshold requirements do not significantly affect the number of states in which Extended Benefits trigger on during a recession. However, the thresholds have the effect of delaying the point at which Extended Benefits trigger on in some states with the highest unemployment, as well as hastening the point at which such states trigger off the Extended Benefits program. As a result, the thresholds have caused dissatisfaction among some with the operation of the program since those states suffering the most economic hardship are triggered on for the shortest period of time. This problem could be addressed by eliminating the thresholds and setting the triggers at a slightly higher level.

Recommendation

The Council is unanimous in the view that there is a pressing need to reform the Extended Benefits program.

The majority of the Council recommends that the Extended Benefits program should trigger on when a state's seasonally adjusted total unemployment rate (STUR) exceeds 6.5 percent as measured before the Current Population Survey redesign.* Two members of the Council recommend that each state should have the choice of using either the STUR trigger of 6.5 percent with a threshold requirement of 110 percent above either of the two previous years, or an IUR or AIUR trigger set at 4 percent with a threshold requirement of 120 percent over the previous two year period.

* Two members of the Council recommend that the trigger should be set at 6.5 percent regardless of any changes in the measured unemployment rate that result from the redesign of the Current Population Survey.

The Council hopes Congress can implement these reforms promptly. Although the Council has reservations about the inefficient targeting of emergency benefits, Congress should extend the existing Emergency Unemployment Compensation for a six month period to provide a bridge program until these Extended Benefits reforms can be implemented.*

Recommendation

Neither substate nor regional data should be used for the purpose of determining whether or not Extended Benefits are available within a given area.

FINANCING EXTENDED BENEFITS REFORM

Findings

The Council finds that the integrity of the Unemployment Insurance system as well as its capacity to adapt to the changing nature of unemployment are compromised by incorporating its trust funds into the unified federal budget. While the flow of funds into the Extended Unemployment Compensation account may be adequate to finance the recommended Extended Benefits reform, such reform is complicated by the use of dedicated Unemployment Insurance trust funds for the purpose of deficit reduction. Several members of the Council believe that prompt action should be taken to correct this situation. Other members feel that the issue of how trust fund accounts should be treated in the budget is a very complex one, and requires careful consideration within a broader context. The Council intends to revisit this issue in its future deliberations.

Recommendation

If additional revenue is required to implement the Council's recommendations, such revenue should be generated by a modest increase in the FUTA taxable wage base, to $8,500.**

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* Two members do not agree to the recommendation that Emergency Unemployment Compensation should be extended.

** Two members object to this recommendation.

WORK SEARCH TEST UNDER EXTENDED BENEFITS

Findings

The Council finds that another problematic aspect of the Extended Benefits program is the federal requirement that, with some exceptions, those individuals who are receiving Extended Benefits must accept a minimum wage job if one is offered, or become ineligible for benefits. While the Council understands that recipients of both regular and extended Unemployment Insurance benefits have an obligation to search actively for work and accept appropriate job offers, the Council finds the current federal requirements to be excessively onerous. All states use a "suitability" test to determine the jobs which claimants are required to accept to remain eligible for benefits. This test gives states the flexibility to ensure adequate work search by claimants, while protecting unemployed workers' living standards and job skills by permitting them to decline substandard jobs. The States are in a better position to determine appropriate mechanisms for enforcing a work search test, given the particular conditions of their labor markets.

Recommendation

The federal requirement that individuals who are receiving Extended Benefits must accept a minimum wage job if one is offered, or become ineligible for benefits should be eliminated. Each state should be allowed to determine an appropriate work search test, based on the conditions of its labor market.

STATE TRUST FUND SOLVENCY

Findings

The Council finds an overall decline in receipt of Unemployment Insurance benefits among the unemployed. This decline is at least partially caused by the inadequate reserves of many states' trust funds. During the past decade, many states with low or negative trust fund reserves have found themselves in the position of either having to increase taxes on employers in the midst of an economic downturn, or having to take measures to restrict eligibility and benefits for the unemployed. Some believe that this

reliance on pay-as-you-go funding has worked to the overall detriment of the Unemployment Insurance system.

The Council believes that it would be in the interest of the nation to begin to restore the forward-funding nature of the Unemployment Insurance system, resulting in a building up of reserves during good economic times and a drawing down of reserves during recessions. The Council finds, however, that any move toward creating federal guidelines for states' Unemployment Insurance trust fund accounts must be carefully weighed. Otherwise, there will be a risk of creating undue incentives for the states to restrict the eligibility and level of Unemployment Insurance benefits in order to achieve the solvency guidelines. The Council intends to make specific recommendations on this issue in future reports.

FUTA TAXATION OF ALIEN AGRICULTURAL WORKERS

Findings

The Council was asked by Congress to consider the treatment of alien agricultural workers within the Unemployment Insurance system. Currently, the wages paid to alien agricultural workers with H2-A visas are exempt from the Federal Unemployment Tax Act (FUTA). This exemption is set to expire on January 1, 1995.

The Council finds that there are arguments both for and against continuing this exemption. Under the current exemption, alien agricultural workers are less costly to hire than domestic workers, on whom FUTA taxes must be paid. This cost differential may create an incentive for substitution of foreign workers for U.S. workers, which argues in favor of repeal of the exemption. Furthermore, the process of certifying workers and issuing H2-A visas imposes costs on the federal and state governments that have the responsibility for overseeing this process. The vast majority (97 percent) of the cost of the certification process is funded through the FUTA tax. Since FUTA serves as the mechanism for funding the costs of the certification process, there is an additional rationale for repealing the exemption of H2-A workers from FUTA taxation.

On the other hand, H2-A workers are ineligible to receive Unemployment Insurance benefits since their visas require that they return to their country of origin within ten days after their employment terminates. Consequently, these individuals cannot meet the "available for work" test of the Unemployment Insurance system. Thus, FUTA taxes would be

imposed upon the wages of individuals who cannot receive Unemployment Insurance benefits, which argues against imposing the FUTA tax on their wages.

On balance, the Council finds that the arguments in favor of FUTA taxation of alien agricultural workers outweigh the arguments against continuing that exemption.

Recommendation

As of January 1, 1995, the wages of alien agricultural workers (H2-A workers) should be subject to FUTA taxes.

Appendix F / Charter

The Council's Official Designation

Advisory Council on Unemployment Compensation (hereinafter called "Council").

The Council's Objectives and the Scope of its Activity

It shall be the function of the Council to evaluate the unemployment compensation program, including the purpose, goals, countercyclical effectiveness, coverage, benefit adequacy, trust fund solvency, funding of State administrative costs, administrative efficiency, and any other aspects of the program and to make recommendations for improvement.

Period of Time Necessary for the Council to Carry Out its Purposes

Four years.

The Agency and/or Official to Whom the Council Reports

The President and the Congress.

The Agency Responsible for Providing the Necessary Support to the Council

The Unemployment Insurance Service of the Employment and Training Administration of the Department of Labor.

Membership

The Council shall consist of 11 members as follows:

(A) Five members appointed by the President, to include representatives of business, labor, State government, and the public.

(B) Three members appointed by the President pro tempore of the Senate, in consultation with the Chairman and the ranking member of the Committee on Finance of the Senate.

(C) Three members appointed by the Speaker of the House of Representatives, in consultation with the Chairman and the ranking member of the Committee on Ways and Means of the House of Representatives.

(D) The President shall appoint the Chairman of the Council from among its members.

(E) In appointing members under subparagraphs (B) and (C), the President pro tempore of the Senate and the Speaker of the House of Representatives shall each appoint—

(i) one representative of the interests of business,
(ii) one representative of the interests of labor, and
(iii) one representative of the interests of State governments.

A Description of the Duties for Which the Council is Responsible

It shall be the function of the Council to evaluate the unemployment compensation program, including the purpose, goals, countercyclical effectiveness, coverage, benefit adequacy, trust fund solvency, funding of State administrative costs, administrative efficiency, and any other aspects of the program and to make recommendations for improvement. Not later than February 1, 1995, the Council shall submit to the President and the Congress a report setting forth the findings and recommendations of the Council as a result of its evaluation of the unemployment compensation program, including the Council's findings and recommendations with respect to determining eligibility for extended unemployment benefits on the basis of unemployment statistics for regions, States or subdivisions of States.

The Estimated Annual Operating Costs in Dollars and Staff Years for Such Council

It is anticipated that expenditures will be approximately $1,200,000, including six FTEs.

The Estimated Number and Frequency of Committee Meetings

It is anticipated that the Council will meet five times during each year.

Termination Date

January 31, 1996.

Appendix G / Calendar

November 15, 1991	Establishment of Council by statute
January 24, 1992	Chartering of Council
May 11, 1993	*Council Meeting* Washington, DC
September 20, 1993	*Public Hearing* Dallas, Texas
September 21, 1993	*Council Meeting* Dallas, Texas
December 9, 1993	*Council Meeting* Washington, DC
January 10, 1994	*Focus Groups of UI Claimants* San Francisco, California
January 11-12, 1994	*Council Meeting and Public Hearing* San Francisco, California
April 21-22, 1994	*Council Meeting and Public Hearing* Springfield, Oregon
June 16-17, 1994	*Council Meeting and Public Hearing* Portland, Maine
August 18-19, 1994	*Council Research Conference* Portland, Maine

September 8, 1994	*Focus Groups of UI Claimants* New York, New York
September 8-9, 1994	*Council Meeting and Public Hearing* New York, New York
November 30-December 1, 1994	*Council Meeting and Public Hearing* Denver, Colorado
January 4, 1995	*Council Meeting* Washington, DC

Appendix H / Public Hearings

THE ADVISORY COUNCIL HAS HELD six sets of public hearings in order to provide individuals and organizations with an opportunity to present their views and recommendations regarding the improvement of the Unemployment Insurance system. Members of the public were asked to address a variety of topics related to Unemployment Insurance.

More than 100 witnesses have presented testimony before the Council and many more have submitted written statements. Both the hearings and the written statements have proven to be a rich source of information, providing many new perspectives on Unemployment Insurance issues. The Advisory Council expresses its appreciation to the members of the public who took the time to share their time and ideas with the members of the Council. These witnesses are listed below.

In order to continue encouraging broad-based participation with regard to both geography and perspective, the Council will hold additional hearings as it continues its work.

WITNESSES WHO PRESENTED TESTIMONY

Jonathan Baird, New Hampshire Legal Assistance
Milt Bartholomew, Douglas County Farmers Co-op, Oregon
Mary Frances Bartlett, Maine Welfare Directors Association
Robert Becker, Raff and Becker, New York
Lee Beyer, Oregon State Representative
Stephen Bingham, San Francisco Neighborhood Legal Assistance Foundation
Malcolm Bonner, California
John Bourg, Louisiana AFL-CIO
Sandra Boynton, Maine
Deborah Bronow, State of California Employment Development Department
Keith Brooks, New York Unemployed Committee
Frederic Buse, New York Department of Labor, Unemployment Insurance

Sally Cansino, Oregon
Hui Lian Chen, Chinese Progessive Association Workers Center, Massachusetts
Larry Clark, Gibbens Company, Utah
Brenda Cochrane, San Francisco State University
Clarence Cooper, Suffolk University, Massachusetts
Leighanne Napua Cote, Maine
Gene Derfler, Oregon State Representative
Loleta Didrickson, Illinois Department of Employment Security
John Dorrer, New England Training and Development Corporation, Massachusetts
Robert Du Val, Unemployment Cost Control, New Jersey
Eunice Elton, Private Industry Council of San Francisco
Maurice Emsellem, National Employment Law Project, New York
Ron Eskin, Merrimack Valley Legal Services, Massachusetts
James Evatz, JCPenney Company, Texas
Terry Evert, Gibbens Company, California
Arthur Fandel, New York State Advisory Council on Unemployment Insurance and Seneca Systems & Services
Gary Fitch, Agricultural Affiliates, New York
Irv Fletcher, Oregon AFL-CIO
Roger Gette, Legal Services of North Texas
Jeff Gilbert, Legal Assistance Foundation of Chicago
Mary Katherine Gillespie, California Rural Legal Assistance
Bruce Goldstein, Farmworker Justice Fund, Washington, DC
Edward Gorham, Maine AFL-CIO
David Gough, Gibbens Company, Colorado
Betty Graham, National Association of Unemployment Insurance Appellate Boards, Colorado
Wayne Graham, Oregon
John Gray, South Brooklyn Legal Services
Monica Halas, Greater Boston Legal Services, Massachusetts
Gary Hanamoto, Oregon
James Handy, Maine State Senate
Sandra Hansberger, Lewis and Clark Legal Clinic, Oregon
Robert Harvey, California Unemployment Insurance Appeals Board
Christine Hastedt, Pine Tree Legal Assistance, Maine
Robert Haynes, Massachusetts AFL-CIO
James Holt, Labor Policy Association, Washington, DC
Charles Howarth, Council of State Chambers of Commerce, California
John Hudacs, New York State Commissioner of Labor
John Humphrey, U.S. Department of Labor, California
Warren Hysell, Boise Cascade Corporation, Idaho
James Jackson, Texas Employment Commission
Thomas Jackson, California
Judy Johnson, State of Washington Employment Security Department
Patrick Johnston, California State Senate
Keir Jorgensen, Amalgated Clothing and Textile Workers Union, AFL-CIO, New York
Bob Kenyon, U.S. Department of Labor, Texas

Richard King, Washington State Joint Legislative Task Force on Unemployment Insurance
Rena Kottcamp, Massachusetts Department of Employment and Training
Yvonne Kroll, Job Service North Dakota
Erik Lang, Colorado Rural Legal Services
Laurie Larrea, Private Industry Council of Dallas
Ed Leslie, U.S. Department of Labor, Washington State
David Lien, San Francisco Department of Social Services
Leslie Linson, Legal Assistance Corporation of Central Massachusetts
Paul Lodico, Mon Valley Unemployed Committee, Pennsylvania
Larry Malo, State of Washington Employment Security Department
Walter Mankoff, New York State Advisory Council on Unemployment Insurance and International Ladies' Garment Workers' Union
Charles Marciante, New Jersey AFL-CIO
Rodolfo Mares, Jr., Legal Services of North Texas
Philip Martin, University of California at Davis
Pamela Mattson, Oregon Employment Department
Lorrie McKinley, Community Legal Services, Pennsylvania
Eric Millage, Employers Unity, Colorado
Kathy Moore, Kennebec Valley Technical College, Maine
Martin Morand, Pennsylvania Center for the Study of Labor Relations
Suzanne Murphy, Unemployment Tax Control Associates, Massachusetts
Dave Murrie, Oklahoma Employment Security Commission
Irv Newhouse, Washington State Joint Legislative Task Force on Unemployment Insurance
Nils Nordberg, Massachusetts Department of Employment and Training
Larry Norton, Texas Rural Legal Aid
Ellen Palmer, Lane Community College, Oregon
Diana Pearce, Women and Poverty Project, Washington, DC
Don Peitersen, Colorado Department of Labor and Employment
Manuel Perez, Oregon Legal Services
Marvin Perry, Rhode Island Department of Employment and Training
Ted Potrikus, Retail Council of New York
Donnie Potts, Texas
Norman Raffael, The Weyerhauser Company, Washington State
Tom Rankin, California AFL-CIO
Cynthia Rice, California Rural Legal Assistance
Ted Roberts, Texas Association of Business
John Rooney, Jr., Jon-Jay Associates, Massachusetts
Carol Ross-Evans, California Tax Payers Association
Dominic Rotondi, New York
Rashan Sanchez, San Francisco Department of Social Services
Scott Schapiro, The Frick Company, New York
Anthony Serrano, GC Services, California
Emmett Sheppard, Texas AFL-CIO
Bob Shiprack, Oregon State Representative
Charlotte Sibley, Farmworker Legal Services of New York
Peter Sorenson, Oregon State Senate

Vernon Stoner, State of Washington Employment Security Department
Keith Talbot, Camden Regional Legal Services, New Jersey
Steve Tegger, Oregon Workforce Quality Council
Gail Thayer, Maine Department of Labor
Liston Thomasson, Mississippi Employment Security Commission
David Tilton, Oregon Legal Services
Allan Toubman, Maine Department of Labor
Dale Tuvey, United Claims Management, Washington State
Donald Vial, California Foundation on the Environment and the Economy
Judy Villa, BankAmerica Corporation, California
Don Villerejo, California Institute for Rural Studies
Richard Virgili, California
Eloise Vitelli, Maine Displaced Homemakers Program
John Watt, Oregon State Representative
Patricia Webber, Maine
Joseph Weisenburger, New Hampshire Department of Employment Security
Libby Whitley, American Farm Bureau Federation, Washington, DC
Jonathan Wilderman, Wilderman and Linnett, Colorado
Christine Worthington, Texas
Stephen Yelenosky, Legal Aid Society of Central Texas
Rick Zimmerman, New York Farm Bureau

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