

Policy Brief

February 2011

Unemployment Insurance

What is Unemployment Insurance?

Unemployment Insurance (UI) is a wage replacement program for workers who have lost their jobs through no fault of their own. It provides eligible unemployed workers a temporary income to pay for their basic needs while seeking new employment.

Who is Eligible for Unemployment Insurance?

There are monetary and non-monetary eligibility rules for UI and these vary from state to state, based on state statutes. In general, those who have worked full-time, have earned enough income and lost their job through no fault of their own are eligible in Indiana.¹

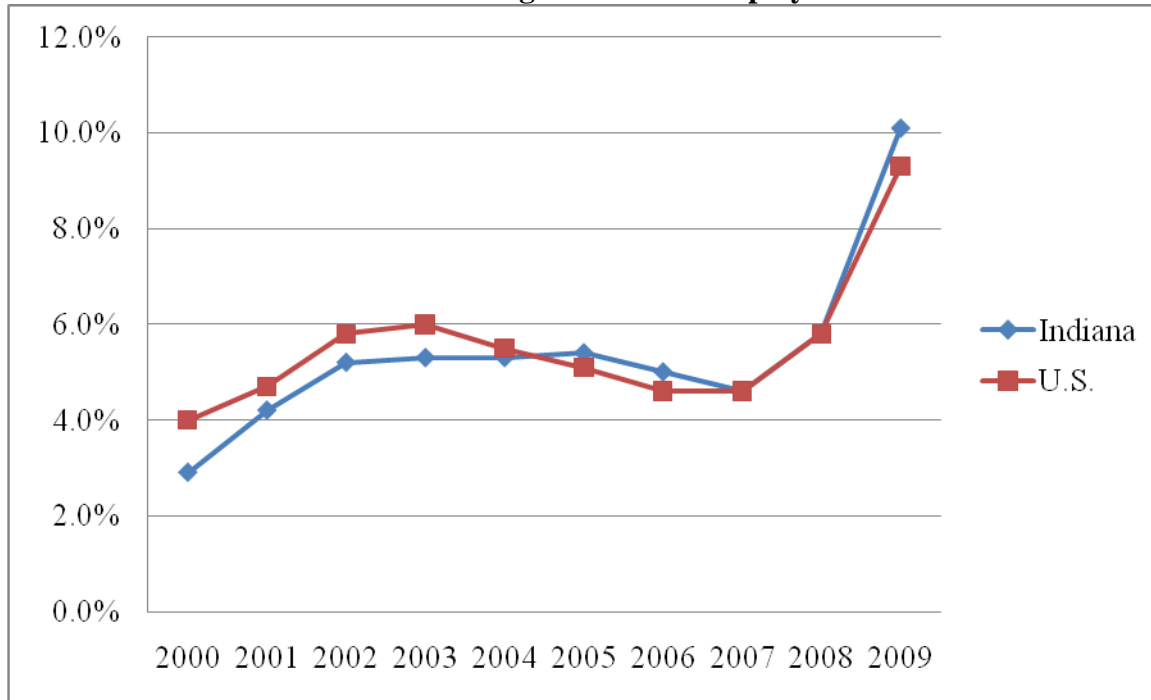
What is the Average Weekly Benefit?

Once deemed eligible, the unemployed worker in Indiana receives a weekly benefit amount, with a minimum of \$50 and a maximum of \$390. From July 2009-June 2010, the average weekly UI benefit a worker received in Indiana was \$303.² This benefit replaced 41.5 percent of the weekly wage of the average employed worker (average benefits is \$709) in Indiana. During this same time period, \$1.3 billion in UI benefits were paid to over 251,000 unemployed Hoosier workers. The average duration of receiving UI benefits was 18 weeks. Nearly 186,237 workers exhausted their UI benefits or 52.5 percent of those first receiving benefits.³

The Current Employment Climate

Indiana - like many of its Midwest neighbors - has been hit hard the last decade vis-a-vis job loss. From 2000-2009, total nonfarm employment in Indiana fell from 3.003 million to 2.760 million.⁴ This number is expected to continue to fall as the effects of the 2007 recession wear on and deeply affects the ability of workers to find new employment. As of Fall 2010, it is estimated that there are over four unemployed workers for every job opening across the nation and a 5:1 ratio in the Midwest.⁵ In October 2010, Indiana had an unemployment rate of 9.9 percent as compared to 9.6 percent across the United States.⁶ *Chart 1* demonstrates Indiana's annual average unemployment rate from 2000 to 2009. During this time, Indiana went from a low of 2.9 percent in 2000 to 10.1 percent in 2009.

Chart 1
U.S. and Indiana Average Annual Unemployment Rate 2000-09



Source: United States Bureau of Labor Statistics and the Indiana Department of Workforce Development

The UI System's Economic Impact on Indiana

UI is a critical underpin to a fragile economy during times of dramatic job loss.⁷ Economists estimate that between \$1.40 and \$2.15 in economic activity is generated by every \$1 distributed through the UI program.⁸ It is interesting to contrast UI as an economic stimulus versus general income tax cuts, which contribute only \$0.40 in economic activity, according to the Congressional Budget Office. This is because all of the wage benefits from UI tend to be spent by unemployed workers on food, housing, utilities, and the like rather than being put in savings. This immediate spending then has a multiplier effect throughout the economy.

How is the UI System Funded?

The UI system was established in 1935 through the Social Security Act and is administered by states. It is funded by a minimal employer payroll tax which is then retained in the state's UI trust fund. UI taxes are separate from the overall state budget and general revenue taxes.

Indiana has the lowest maximum tax rate and taxable wage base permitted under federal law. These are important characteristics because they set the stage for Indiana's trust fund to become insolvent during this most recent recession. Indiana did pass legislation in 2009 to raise the wage base to \$9,500 in 2010. However, subsequent legislation delayed enactment until January 1, 2011 and so the base remained at a level where it had been since 1983 throughout 2010. All but five other states have adopted higher taxable wage bases than the federal minimum and even with an increase to \$9,500 Indiana will remain in the bottom half of states.

The average tax rate for employers in Indiana is expected to be 0.63 percent in 2010 with an expected average contribution rate of \$209 per employee.⁹ The U.S. Department of Labor estimates that 78 percent of employers in Indiana are paying an average tax rate below what can be considered an adequate financing rate for a solvent trust fund.¹⁰ As a part of a legislative package which is now set to go into effect on January 1, 2011, Indiana did establish new employer rates within a few of its tax rate schedules, with a broader range of taxes employers will pay.

In 2001, Indiana's trust fund balance was \$1.6 billion. By the end of 2008, the fund was insolvent and the state began borrowing from the federal government to pay out UI benefits to unemployed workers. In April 2010, 34 of the 53 state trust funds, including Indiana, had outstanding loans totaling \$38.9 billion from the federal government to pay UI benefits.¹¹ In October 2010, Indiana's net trust fund balance was -\$1,841 billion.¹²

How can the Unemployment Insurance System be Strengthened?

Most state UI systems are in crisis mode due to the effects of the 2007 recession. Thirty-four out of 53 jurisdictions, including Indiana, are borrowing from the federal government to pay UI benefits because their trust funds have been drained. The policy recommendations made by the National Employment Law Project and the Indiana Institute for Working Families in 2005 are still relevant, despite the economic struggles facing the state.¹³ If some of these recommendations had been adopted 5 years ago, Indiana's trust fund could have remained solvent for a longer period of time, resulting in less borrowing from the federal government. In addition, while there is a moratorium on paying federal interest on the trust fund loans to states, this is set to expire at the end of 2010 and Indiana will begin paying interest on the funds it has borrowed from the federal government in September 2011. Therefore, it is in Indiana's best interest to continue exploring ways to modernize and strengthen the state's first line of defense against the personal and systemic effects of unemployment.

It must be noted that Indiana could receive up to \$148 million in federal stimulus dollars if it adopted key UI modernization reforms by August 2011, starting with adopting an alternative base period. This funding is available through the American Recovery and Reinvestment Act of 2009 and expires in August 2011. Thus far, 33 states have implemented all of the modernization elements and another 6 have adopted at least one. Indiana is one of the 12 states who have failed to act on any of the reforms and are leaving this money on the table.

If Indiana adopts the alternative base period, it must then adopt at least two of the remaining four modernization changes to access the full \$148 million. Specifically, Indiana must:

- Remove the disqualification for eligible part-time workers who are seeking part-time work (Currently, they must be seeking full-time work. See below for more information).
- Remove the disqualification for those who quit their jobs for compelling family reasons, including illness or disability of immediate family members.
- Allow an additional 26 weeks of eligibility for workers enrolled in training programs.
- Allow an income allowance of at least \$15 per week for each dependent in the worker's household.

1. Increase and Index the Taxable Wage Base

States need to regularly adjust their taxable wage bases upward to ensure that the financial base for their UI programs is adequate. The best practice among states is indexing the wage base to a portion of statewide average annual wages. Thirty-four other states automatically index their maximum weekly benefit to their statewide average wage. Although it is set to increase in 2011, Indiana's UI tax base has remained the same for over 20 years. Rather than relying upon Indiana's Legislature to raise the taxable wage base at intermittent intervals, Indiana should adopt indexing as a way to automatically bring its wage base back into line with the state's wage levels.

2. Bring Employer Tax Rates in Alignment with an Adequate Financing Rate

If Indiana wants a solvent trust fund, it must address its extremely low tax rates on employers, which, in turn, finance the fund. The current average tax rate is 40 percent below what the Department of Labor considers an adequate financing rate.¹⁴ While unpopular with employers, especially during a recession, Indiana will continue to struggle with solvency without doing so. Although small, incremental tax increases have been made to Indiana's UI tax rate schedules, Indiana needs to continue exploring the financial ramifications of an insolvent trust fund (and the potential of federal interest payments on such a loan) with the impact of reasonable tax increases on employers.

3. Adopt an Alternative Base Period

Most states, including Indiana, traditionally define their base periods as "the first four of the last five completed calendar quarters." Depending upon when a UI claim is filed, the quarters of wages considered can include wages earned as long as 18 months prior to the filing of the UI claim, with wages earned in more recent calendar quarters excluded from the base period. This can result in certain unemployed workers being ineligible for benefits, though they qualify in every other way.¹⁵ States with alternative base periods (ABPs) permit workers to use these more recent wages in cases where they fail to establish monetary eligibility using the traditional base period. The most common ABP definition uses only the "lag quarter" wages, while three states permit the use of filing quarter wages. In all, 38 states currently have ABPs, while Indiana is among the states retaining traditional base periods. This change would reach an estimated 27,000 workers each year with a minimal cost as compared to total benefits paid out by the fund.¹⁶ Adopting an ABP by August 2011 would also enable Indiana to access a portion of the ARRA incentive dollars and if combined with adopting at least two additional ARRA modernization reforms, would result in \$148 million in funding.

4. Offer UI to Part-time Workers

Part-time work is a significant part of our modern economy. Nationally, more than 1 out of 4 workers have a part-time work schedule. Indiana had 770,690 part-time workers in 2009 or 26.8 percent of the labor force, the vast majority of who were female.¹⁷ For many employers and workers, part-time work is a necessity and in many occupations part-time work is prevalent. In addition, part-time work is an important strategy for female workers in their "prime" working years (25-44 years old) to balance family responsibilities with their careers. Indeed, 20% of employed women aged 25-54 work part-time as compared

to about 7% men in the same age group.¹⁸ One final note on the part-time issue; the wages of part-time workers are subject to UI payroll and other employment taxes on the same basis as the wages of full-time employees. In other words, employers must pay UI taxes for their part-time workers in Indiana even though those workers are likely to be ineligible for UI benefits.

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¹ For a more thorough discussion on eligibility see McHugh, R., Nielsen, J. and Warren, C. (2005) Supporting Work in a Changing Economy: Options to Modernize Indiana's Unemployment Insurance System. Online at http://nelp.3cdn.net/28817b60383dcb4d6d_95m6iykn6.pdf. Accessed 12/01/2010.

² United States Department of Labor, Employment and Training Administration, Office of Unemployed Insurance. 2010.2 Data Summary for Indiana.

³ Ibid.

⁴ Bureau of Labor Statistics. Employment, Hours, and Earnings from the Current Employment Statistics survey (State and Metro Area). Online: <http://data.bls.gov/cgi-bin/surveymost?sm>. Accessed 12/14/2010.

⁵ Bureau of Labor Statistics JOLTS and Census Bureau Current Population Survey data, as cited by the Economic Policy Institute. (December 2010). Online: http://www.epi.org/publications/entry/no_jobs_for_more_than_three_out_of_four_unemployed_workers. Accessed 12/05/2010.

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⁷ Advisory Council on Unemployment Insurance, (1996). Defining Federal and State Roles in Unemployment Insurance. U.S. Department of Labor. p. 230.

⁸ Congressional Budget Office, "Policies for Increasing Economic Growth and Employment in 2010 and 2011," January 2010 and Wayne Vroman, "The Role of Unemployment Insurance As an Automatic Stabilizer During a Recession" (2010). Online: http://wdr.doleta.gov/research/FullText_Documents/ETAOP2010-10.pdf. Accessed 12/08/2010.

⁹ United States Department of Labor, Office of Workforce Security, Division of Actuarial Services. (October 2010). Significant Measures of State UI Tax Systems. Online:

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¹⁰ Ibid.

¹¹ U.S. Government Accountability Office. (April 2010). Unemployment Insurance Trust Funds: Long-standing State Financing Policies Have Increased Risk of Insolvency. GAO-10-440. Online: <http://www.gao.gov/products/GAO-10-440>. Accessed 12/01/2010.

¹² National Employment Law Project. Online at <http://www.nelp.org/page/-/UI/2010/sfainelpfinal.pdf?nocdn=1>. Accessed 12/01/2010.

¹³ See McHugh, R., Nielsen, J. and Warren, C. (2005) Supporting Work in a Changing Economy: Options to Modernize Indiana's Unemployment Insurance System. Online: http://nelp.3cdn.net/28817b60383dcb4d6d_95m6iykn6.pdf. Accessed 12/01/2010.

¹⁴ United States Department of Labor, Office of Workforce Security, Division of Actuarial Services. (October 2010). Significant Measures of State UI Tax Systems. Online: <http://www.oui.doleta.gov/unemploy/pdf/sigmeasuitaxsys10.pdf>. Accessed 12/01/2010.

¹⁵ For a more thorough discussion of ABPs and Indiana-specific simulations, see McHugh, R., Nielsen, J. and Warren, C. (2005) Supporting Work in a Changing Economy: Options to Modernize Indiana's Unemployment Insurance System. Online at http://nelp.3cdn.net/28817b60383dcb4d6d_95m6iykn6.pdf. Accessed 12/01/2010.

¹⁶ National Employment Law Project. (November 2009). The American Reinvestment and Recovery Act's Modernization Provisions: Benefit Funding and Workers to Benefit in States that Adopt ARRA Incentive Reforms. Online: <http://www.nelp.org/page/-/UI/UIMA.cost.chart.nov.09.pdf?nocdn=1> (see table on page 4). Accessed 12/15/2010.

¹⁷ Economic Policy Institute analysis of Current Population Survey data.

¹⁸ Ibid.