Unemployment Insurance
Adapting to a Changing Labor Force

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UI Overview

- Limited ability to adapt to changing labor force
- In 1935, designed to pay benefits to unemployed, formerly full-time wage and salary workers
- Limited and uneven response to changing post-WW II labor force
  - No major federal legislative reform of UI since 1976
  - States determine most benefit and tax provisions; uneven response
  - Employers pay UI tax and often oppose benefit or tax increases
- Able to adapt to some labor force changes, not others
  - Uneven state adaptation to labor force changes for wage and salary workers
  - Inability to adapt to nonstandard work (non-wage and salary workers)
  - Specifically, no coverage of self-employed/independent contractors
- Potential solutions
Changing Labor Force

• Increased labor force participation of women and older workers
• Multiple earners in households
• Part-time unemployment
• Older workers
  • Later retirement
  • Changing careers and bridge/partial employment
• Rise of permanently displaced workers
  • Need for reemployment services
Constrained UI System

- Federal taxable wage base: $7,000; unchanged since 1983
  - Started at same wage base as Social Security that is now at $128,400
- States can enact higher wage base, but 16 states < $10,000
- Average tax rate on total wages = 0.61%
- Recipiency rate = 26% of all unemployed
- Average Weekly Benefit Amount = $346
- Replacement Rate = AWBA/AWW = 33% (old policy goal of 67%)
- Potential Duration less than 26 weeks = 8 states
# Wide Variation in Program Scope

<table>
<thead>
<tr>
<th></th>
<th>National</th>
<th>MA</th>
<th>FL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recipiency Rate</strong></td>
<td>26%</td>
<td>44</td>
<td>11</td>
</tr>
<tr>
<td><strong>Potential Duration</strong></td>
<td>Mostly 26 weeks</td>
<td>30</td>
<td>9-12</td>
</tr>
<tr>
<td><strong>Wage Replacement</strong></td>
<td>33%</td>
<td>56</td>
<td>30</td>
</tr>
<tr>
<td><strong>Taxable Wage Rate</strong></td>
<td>$7000</td>
<td>15000</td>
<td>7000</td>
</tr>
<tr>
<td><strong>Average Tax on Total Wages</strong></td>
<td>0.61%</td>
<td>0.73</td>
<td>0.24</td>
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</table>
Uneven Benefit & Reemployment Provisions

<table>
<thead>
<tr>
<th>Benefits</th>
<th>No. of States</th>
<th>MA</th>
<th>MS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Search for Part-Time by P-T Workers</td>
<td>34</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Follow Spouse (Impractical Commute)</td>
<td>26</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Alt. Base Period</td>
<td>47</td>
<td>Y</td>
<td>N</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Reemployment</th>
<th></th>
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<tbody>
<tr>
<td>Work Sharing</td>
<td>28</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Self-Employ Assistance</td>
<td>8</td>
<td>N</td>
<td>Y</td>
</tr>
</tbody>
</table>
Self-Employment

• Increasingly important form of employment, especially for older workers

• States have not found a way to cover the self-employed
  • CA was the only state that tried coverage, but it didn’t work
  • Moral hazard concern: determining what is a week of unemployment
  • Issue: How does a self-employed worker pay for self-employment coverage?
Self-Employment Assistance

• Pays UI benefits to UI claimants setting up their own business
  • Must take entrepreneurial training and work full-time to establish business
• Only exists in 8 states and very small
• Hinderance is lack of funding for entrepreneurial training
• If SEA participant ends self-employment, then cannot collect UI
• Non-Symmetrical: UI program encouraging self-employment through the SEA program, but then not covering participants if they become unemployed
Independent Contractors

- Each State UI law determines whether an unemployed worker was in an employee-employer relationship
- State UI law generally follows IRS determinations of who is an employee
- True independent contractors would never be not eligible
- Misclassification/reclassification issues resolved by states and federal government, e.g., FedEx and UPS now UI covered after federal court determination
- Treatment of gig economy employers unresolved
  - CA has paid a few Uber drivers, but is not collecting UI taxes from Uber
  - No challenges re independent contractor status in state or federal courts yet
  - Thus, for UI purposes, no state law covers Uber/Lyft and similar firms, but they could
Potential Solutions

• Change UI public financing to mostly or all employee funding
  • Remove/reduce employer opposition to benefit and tax increases
  • Economists find that incidence of current UI tax already falls mostly on employees

• Within UI system
  • Expand UI adaption to the reality of the current labor force
    • E.g., part-time work, follow spouse/partner, pension offsets, reemployment services
  • Independent Contractors: Monitor misclassifications and review coverage definitions

• Outside UI system
  • Self-Employed: unemployment savings accounts, as “employee contributions”
  • Independent Contractors: unemployment savings accounts, as “employee contribution” or negotiated with gig employer (per Harris & Krueger 2015)
  • Unemployment assistance: based on need, from general revenue