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The Current State of Unemployment Insurance: Challenges and Prospects

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Summary

As the crisis of the Great Recession gives way to economic recovery, the federal-state Unemployment Insurance (UI) system that helped sustain the country during the height of unemployment continues its essential function in the American economy. The program that made headlines during each successive wave of extraordinary unemployment compensation extensions continues its fundamental work of providing income replacement to workers laid off from a job. The present period, when the demands on the system are relatively low, is precisely the time to have reasoned conversations about reforming it – before the next high-stress period of sustained and widespread use.

This need for timely reform inspired the National Academy of Social Insurance to convene a roundtable discussion on "Rethinking Unemployment Insurance" in Washington, D.C. on October 16, 2015. The meeting was chaired by Stephen Wandner, Visiting Fellow at the Urban Institute and Visiting Scholar at the W.E. Upjohn Institute for Employment Research, and William Rodgers, Professor and Chief Economist at the Heldrich Center for Workforce Development at Rutgers University. This brief presents the issues, problems, and proposals for reform that were identified at the roundtable, and represents an up-to-date accounting of some of the most pressing issues facing the UI system as articulated by leading experts on the program. More information about the roundtable upon which this brief is based can be found in the Appendix.

This brief, like the roundtable discussion on which it is based, is organized into three broad issue areas: reemployment through the UI system, problems in UI financing, and the capacity of UI to serve the modern workforce.

Reemployment through the Unemployment Insurance System

The Work-UI Synergy

From the inception of the unemployment insurance system, the connection between UI and work has been definite and explicit. Many of the policy debates about UI center on the specifics of this synergy. Two main sets of policy questions about the connection between UI and work were addressed by roundtable participants: one set dealing with the work requirement for benefit eligibility, and another dealing with policies intended to help current beneficiaries return to work.

The first set of policies overlap to a large extent with broader eligibility questions, which will be addressed in the third part of this brief. In summary, having a work history is a basic eligibility

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requirement for UI benefits, but policy questions arise around the details of how this work test is administered. For example: How much must a worker have earned in order to qualify? To what extent must the worker have maintained stability in her past work experience? How should the system be set up to verify work history without being overly burdensome or punitive?

This emphasis on reemployment has been a part of the UI program since its beginning. It is not an ancillary aspect of the program; it is central to its mission and success. It is also key to maintaining UI as a social insurance program.

The second set of policies clarifying the connection between UI and work are those that affect current beneficiaries. Once receiving benefits, recipients are required to seek and accept suitable work. This emphasis on reemployment has been a part of the UI program since its beginning. It is not an ancillary aspect of the program; it is central to its mission and success. It is also key to maintaining UI as a social insurance program.

The Growing Focus on Reemployment

Over the course of the development of UI, the extent to which government systems have aided workers' efforts to find new jobs has varied. At the start, the Employment Service established by the Wagner-Peyser Act two years before the enactment of UI did not explicitly serve UI claimants.[1] Beginning in the 1990s with the enactment of UI provisions in the Social Security Act, the Employment Service developed a close working relationship with the UI program and has had statutory responsibilities for servicing UI recipients. Recently, the Workforce Innovation and Opportunity Act (WIOA) enacted in 2014 amended the Wagner-Peyser Act to direct the Employment Service to refocus specifically on UI claimants. This priority on UI recipients represents a culmination of a decades-long trend towards greater harmonization between reemployment supports and UI. The Eligibility Review Program (ERP) of the 1980s, the Worker Profiling and Reemployment Services (WPRS) system of the 1990s,[2] and the Reemployment and Eligibility Assessments (REAs) of the 2000s represent iterations of this effort.[3]

The Workforce Innovation and Opportunity Act (WIOA) enacted in 2014 amended the Wagner-Peyser Act to direct the Employment Service to refocus specifically on UI claimants. This priority on UI recipients represents a culmination of a decades-long trend towards greater harmonization between reemployment supports and UI.

Along with WIOA's provision to assist UI claimants though the Employment Service came the Department of Labor's push to build on the success of the REA program. The result is the new Reemployment Services and Eligibility Assessments (RESEA) program, which continues the eligibility assessments established under the REA program (the roots of which can be found in ERP), but also adds more extensive reemployment services for targeted UI claimants. This is a significant step towards a system that looks more like *employment* insurance than unemployment insurance.

Barriers to Reemployment

THE TREND TOWARDS REMOTE FILING

Despite these promising developments, a number of barriers stand in the way of more effective reemployment services. Among the most significant factors identified by roundtable participants is a two-decade trend away from brick-and-mortar locations for applying for benefits and towards a remote system administered by telephone and online.[4] This trend has the effect of disconnecting workers from some of the most effective reemployment mechanisms: those that are administered face-to-face. It essentially trades off effective access to reemployment programs for administrative ease (and in some cases, ease of benefit claiming for workers).

In addition, the shift to remote filing has a disproportionate impact on certain vulnerable populations. While internet filing may be possible, if not positively convenient, for some workers, it could have the effect of excluding or highly burdening others, such as people with disabilities, non-English speakers, or those with general computer issues. In places that lack a UI presence at brick-and-mortar public workforce offices, it is often harder for UI claimants, especially low-income people, to connect to the services.

PERMANENT LAYOFFS

Another significant barrier to effective reemployment services identified by roundtable participants is the trend towards permanent layoffs.[5] Permanent workforce downsizing by employers has occurred along with a decline in temporary layoffs. Thus, the nature of reemployment services has shifted from supporting workers in their efforts to reenter the workforce in a similar job, to finding a new job—and in many cases a new industry.

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If workers are permanently displaced, it might be reasonable to think that training programs may be the answer. But roundtable participants identified a number of problems with this approach. First and most fundamental is the fact that there is a lack of evidence that training programs are effective at building skills and placing workers in new jobs.[6] In addition, the mechanics of actually entering training programs are often not ideal. The period and duration of UI benefits do not always correspond to the beginning or length of training programs, with the result that claimants who begin a training program while receiving UI as part of reemployment services may have to continue the training program beyond the exhaustion date of their UI benefits and thus live with no income for a significant period of time. This defeats the income-smoothing function of the UI program.

A more fundamental issue with the viability of training programs targeted at displaced UI recipients is that these workers tend to have long labor-force experience and work skills that are frequently already transferrable to other occupations or industries. The great majority of UI recipients who receive job-search assistance early in their spell of unemployment elect to immediately search for work rather than to enter training if training is offered to them. This fact affirms the importance of reemployment services.[7]

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The Department of Labor's Initiatives

THE RESEA PROGRAM

The Department of Labor is aggressively pursuing a new strategy for targeting reemployment services to those who could most benefit from them. The RESEA program will use the existing infrastructure for screening UI claimants—a process known as "worker profiling," established in 1993 as part of the

Worker Profiling and Reemployment Services (WPRS) system—to allocate scarce reemployment resources to the workers most likely to benefit from them. These workers are defined by DOL as those identified as being most likely to exhaust their UI benefits (traditionally after 26 weeks in most states) and all veterans receiving unemployment compensation under the dedicated UI program for ex-service members (UCX, or Unemployment Compensation for Ex-Servicemembers).[8]

SHORT-TIME COMPENSATION

A second approach that also has deep roots in the history of the UI program is Short-Time Compensation (STC), also known as work-sharing. STC is a system by which employers achieve the necessary level of labor cost reduction in lean production periods without laying off as many workers as would normally be needed to attain the same level of cost reduction. Under STC, instead of laying off a group of workers during a down cycle in the economy, employers can reduce the work hours of a larger group of workers. The UI system can pay a portion of the lost wages for the workers whose hours are reduced. The underlying concept appeals to analysts across the political spectrum because it promotes a stronger connection to work and serves both the employer and the worker well in the long term.[9]

An intuitive appeal of the program is that if we have a system for providing full unemployment compensation, it makes sense to also have a system for providing partial unemployment compensation. Why pay workers to be fully unemployed if they can be partially unemployed? This program has been shown to have potential in the states with robust STC programs such as Washington and Rhode Island. Although 28 states and the District of Columbia currently have STC programs on the books, it is not a widely used option.[10] According to the participants, employers' lack of knowledge about the program stands as the greatest obstacle to greater take-up. Still, this obstacle can be overcome. Firms and industries that place a high value on human capital, and especially industry-specific human capital such as complex manufacturing for durable goods like airplanes and automobiles, are most likely to take up STC as an alternative to full layoffs. These industries often wish to keep their workforces in their labor market and to remain available in expansionary periods of greater demand.[11]

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A number of options for improving take-up of STC were identified by the participants. A consensus emerged around the notion that simply increasing outreach to employers to inform them of the program's existence would go a long way towards improving take-up. Beyond this suggestion for greater outreach, other proposals for improving the program's incentives for employer use were discussed. In particular, working towards federal reimbursement to states for costs incurred through STC would make the program more appealing to both employers and states. This kind of federal reimbursement would open up the possibility that states could non-charge employers in their experience ratings when using STC instead of full layoffs. This would encourage employers to keep workers at least partially employed rather than laying them off entirely.

Proposals to expand STC must proceed cautiously, however, because if the program is perceived as facilitating short-time work too easily, more work hours might be cut than would have been in the absence of the program. While any reform must seek to account for this moral hazard problem, there was a consensus among participants that robust STC systems in more states need to be in place at the beginning of the next recession when they can be most useful. STC serves a purpose throughout the business cycle, but its importance in recessions is much greater.

Issues in Unemployment Insurance Financing

Given the financing troubles of the UI system during the last recession, during which about two-thirds of state UI trust funds became insolvent, and the lack of meaningful system-wide improvements to financing since then, the participants devoted a session of the roundtable to discussing UI financing problems and solutions. The three broad topic areas were: funding of program administration, financing of regular benefits, and financing of Emergency Unemployment Compensation (EUC) and Extended Benefits (EB).

Administrative Funding

One of the aspects of the UI system that is often cited as setting it apart from other social policy programs is its dedicated funding stream. A portion of the FUTA (Federal Unemployment Tax Act) tax collected from employers on payroll is dedicated to both federal UI operations maintained by DOL and to state UI administration via remittance from the federal Employment Security Administration Account (ESAA) of the Unemployment Trust Fund (UTF). Extensive demands are placed on this funding stream. The funds are expected to be effective at achieving the many UI policy goals Congress has placed on the funding stream, including ensuring benefit payments and tax collection, detecting fraud, and providing employment and reemployment services. But even though the funding stream technically comes from dedicated taxes, Congress must still appropriate the funds for UI administration through the annual appropriations process.

One policy reform option that was discussed by roundtable participants is to move the funding for UI administration to the mandatory side of the budget so that it would be automatically available for use each year. In addition to providing predictable funding for federal UI operations, this proposal would have the additional benefit of allowing DOL to use its Resource Justification Model (RJM) in the way it was intended. The RJM was designed to provide a vehicle for states to report the actual costs they incur to operate the UI program in their state. Because the amount of funds appropriated by Congress has consistently been less than the total funding the RJM indicates as necessary, the RJM today is used only as the method by which DOL determines how much of the federal funds appropriated by Congress should be allocated to each state for administration of their UI systems in a particular year. This allocation process is significantly constrained by the austerity and uncertainty of the appropriations process.

Another adverse result of the current budget process for federal UI administrative funding is that efficient UI policies that cost a small amount on the front end, but accomplish larger cost-savings in the big picture, are not scored favorably by congressional budget rules. For example, there is evidence that REAs or fraud detection efforts may pay for themselves, but budgetary analyses by the Congressional Budget Office (CBO) do not capture this effect. In order to see the cost savings, analysts would have to look at net impacts on the federal budget. In addition, recent research suggests that the EUC program during a recession should lower costs in other safety net programs such as the Supplemental Nutrition Assistance Program (SNAP). Some of the roundtable participants recommended that CBO consider this offset in their scoring of EUC in the future, if the research findings on the offset effect are convincing.

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Financing of Regular Benefits

The discussion around UI financing for regular benefits touched on a wide range of topics, including the utility of experience rating and UI's federal-state structure. But most of the discussion can be summarized within two areas: the UI taxable wage base and forward funding of the UI trust funds.

THE UI TAXABLE WAGE BASE

For many years, UI policy discussions have considered indexing the federal FUTA taxable wage base to changes in average wages.[12] This change would have the effect of making the FUTA wage base grow at a rate similar to that of the Social Security wage base, which is indexed. Although each state sets its own UI tax base and rates, the minimum allowable wage base under federal law for qualifying state programs is currently set at $7,000 – 5.9 percent of the $118,500 wage base for Social Security in 2016. Indexing this base so that it could increase with changes in wages would help improve overall system financing. For one thing, some states have indexed earnings tests and benefits, but have not indexed wage bases, which effectively means that every year an ever higher financial burden is placed on an ever shrinking wage base in real-dollar terms. Some roundtable participants suggested that indexing the wage base should be the first step in broader conversations about how to improve the structure of the federal-state UI tax system. Indexing the wage base would help to achieve a higher level of adequacy for UI funding and allow for measured conversations about overall UI financing going forward.

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It should be noted that while indexing the FUTA wage base is helpful, state UI financing systems are complex and dynamic, consisting of a variety of tax schedules and rates, a wide range of minimum and maximum rates, different methodologies for assigning experience-rated tax rates to employers, and a wide variety of solvency indicators, all of which ultimately determine the amount of tax revenue. The impact of only indexing the taxable wage base can easily be offset by these other financing variables and should not be considered in isolation. For example, states could lower UI tax rates across the board to minimize the impact of the base change on employers' tax liability. Doing so would reduce the overall effectiveness of wage-base indexing on solvency. This fact notwithstanding, broadening the base is simply good public finance. As one participant put it, we should not let the perfect be the enemy of the good when it comes to the UI tax structure.

UI FORWARD FUNDING

A central principle of UI is the forward funding of its finances. Forward funding is essential to achieving the program's countercyclical function and to ensuring its long-term reliability in helping laid-off workers. Yet in recent years, certain states have been pursuing policies that are contrary to forward funding. These states have in place UI tax policies that make it very difficult for them to reach a suitable high-cost multiple (HCM) to allow them to weather a recession or regional economic downturn.* Instead of building up reserves in their state accounts,

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* A state's high-cost multiple (HCM) is a measure of its UI trust fund solvency. It represents a state's reserve ratio (its UI trust fund level as a percentage of total annual statewide wages) divided by the high cost rate (the highest historical ratio of benefits to wages for a 12-month period in that state). An HCM of 1.0 corresponds to sufficient reserves to pay benefits at the high cost rate for 1 year without relying on payroll tax revenue.

these states borrow funds from the Federal Unemployment Account of the Unemployment Trust Fund to meet current needs. Then, in order to reduce the cost of paying for outstanding loans to the federal trust fund, some of the borrowing states may sell bonds at favorable rates to pay off the federal loans.

Ironically, economic incentives may actually encourage states to pursue this kind of debt arbitrage rather than more traditional forward-financing approaches. In a recession, when states are most likely to exhaust their trust fund reserves, capital markets flee from equities to the security of bonds; bond rates go down; and states can then receive a favorable bond rate to finance their UI debts. Nevertheless, according to some roundtable participants, this financing approach is a risky proposition. Forward financing still makes sense, and the existence of these economic incentives should not be a reason to abandon forward financing. After all, there would not be as much upward pressure on employers' UI tax rates (which would be needed to rebuild trust fund reserves) during recessions and tenuous recoveries if the states had adequately forward-financed in the first place. One interesting proposal to equalize the economic incentives between bond financing and trust-fund financing involves strategically adjusting federal interest-rate payments on state UI trust-fund reserves. To incentivize forward funding, the Treasury could pay higher interest rates on the funds held by the federal government to states with higher HCMs, and lower rates to states with lower HCMs. This reform would shift the incentives states face when considering trade-offs in the timing of building UI reserves for the next recession.

Financing of Extended Benefits and Emergency Unemployment Benefits

Consensus was reached among roundtable participants that the performance of the Extended Benefits (EB) and Emergency Unemployment Compensation (EUC) programs during the last recession was poor. EB is a permanent program, funded jointly by the states and the federal government, which provides additional weeks of benefits (beyond the typical 26) to unemployed workers in states that are experiencing significantly higher rates of unemployment than in previous periods. EUC is a wholly federally funded program that provides further benefits to workers who have exhausted both regular UI benefits and EB. EUC is not a permanent program, but must be enacted by Congress in response to recessions.

The problems with EB and EUC during the Great Recession were manifold. Three examples of the problematic roll-out are presented here. First, many state Information Technology (IT) systems were several decades old and therefore ill-equipped to handle the congressionally ordered tiers of extended benefits for unemployed workers.** Second, the Federal Additional Compensation (FAC) program was intended to boost UI benefits to individual workers by $25. But even though federal rules prohibited states from simply reducing their benefits in offset by $25, some states still found a way to capture the supplement for the benefit of their budgets and avoid passing it on to workers: They lowered their benefit durations. Third, the severity and duration of the recent recession were such that the EB triggers were not responsive to the extraordinary rates of unemployment in many states. Some states would have dropped out of EB coverage not because their unemployment situation improved, but because they would have failed the "look-back" test for EB eligibility, which measures whether a state's unemployment rate was worse than in prior months.*** Although the federal gov-

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** The tiers of extended unemployment benefits determined which workers would be eligible for extended unemployment insurance benefits. Workers eligible for Tier 1 who could not find a job before exhausting those benefits would become eligible for Tier 2, and so on.

*** A state's eligibility for extended benefits depends on two factors, or "triggers": whether the unemployment …

ernment offered a longer look-back period than is normally allowed under EB to mitigate this problem, states still had to change state laws to accommodate the new look-back period. This meant that worker advocates had to compromise away other aspects of the state UI system that are favorable to working families in order to get the longer look-back period for EB.

LESSONS FROM THE GREAT RECESSION

The federal response to unemployment in the Great Recession through the enactment of EUC perpetuated a longstanding moral hazard problem in the federal-state UI program. States again were taught that the federal government would bail them out in recessionary periods because of the federal government's interest in achieving the overall goal of bolstering the wider economy. This taught states that, in effect, they do not have to pay as much attention to their UI finances.

Additionally, the political concern to be responsive to workers' experiences of unemployment during recessions, and especially in the Great Recession, means that politicians in Congress face incentives to maintain control of the EUC program, even if that means placing severe burdens of EUC implementation on states. In theory, if revised EB triggers were more robust, there would be less of a need for EUC because unemployment insurance would better allocate benefits in recessions. But even though some roundtable participants were confident that such triggers could be created at least within reason, they speculated that Congress might prefer to enact EUC-type programs in times of crisis to meet demands from constituents. As a result, benefit extensions are largely a political rather than a technical problem. One proposal to address this dilemma would be to create a pre-existing EUC program with a simplified structure – just two or three tiers – and have it ready in time for the next recession.[13] This plan could maintain a congressional trigger, so that Congress could be politically credited with extending benefits at the right moment by enacting this EUC program. For their part, states could make preparations for implementing this EUC program ahead of an unemployment crisis because the structure of the plan would be known.

Is UI Adequately Serving the Modern Workforce?

Over the course of the roundtable, participants identified at least three main areas where the UI program falls short of meeting its goals. It is failing to serve its counter-cyclical function; it is not adequately serving its income-replacement function; and it is not serving nonstandard workers. UI's challenges to fulfill its counter-cyclical function have been addressed above in the reemployment and finance sections of this brief. In summary, if the UI program cannot help workers get back to work, and if states do not adequately forward-fund their programs, UI will not fully achieve its counter-cyclical function. The participants' discussions of the extent to which UI is providing adequate income replacement to workers and is adequately serving the diverse range of workers in today's economy will be addressed in this section.

…rate in the state exceeds certain thresholds, and whether the state's unemployment rate is significantly higher than in immediately preceding years. The first factor is based on either the state's insured unemployment rate (IUR) or its total unemployment rate (TUR), depending on the state's election of statutory triggers. The IUR is insured unemployment divided by covered employment, or the number of current UI recipients divided by the number of people working in the labor force who are covered by UI. The TUR is the number of people who are unemployed (whether receiving UI or not) divided by the number of people in the civilian labor force (whether employed or unemployed). The second factor is known as the "look-back" test and measures whether a state's IUR or TUR is significantly higher than in a preceding period. For example, a state would qualify for EB if its TUR exceeds 6.5 percent and its TUR is at least 10 percent higher than in the same period during one of the preceding two years. For a quick summary of the EB triggers, see Chad Stone and William Chen, 2014, "Introduction to Unemployment Insurance," Center on Budget and Policy Priorities, http://www.cbpp.org/research/introduction-to-unemployment-insurance.

UI's Income-Replacement Function

Two trends capture dimensions in which UI is failing to adequately replace workers' incomes: an increase in the number of claimant drop-outs among UI recipients, and a decrease in the rate of UI recipiency among eligible unemployed workers.

HIGH DROP-OUT RATES

There is evidence that large numbers of UI recipients are disqualified or drop out of the system, thereby foregoing needed benefits. Some roundtable participants pointed to states' systemic abuses of application and eligibility review systems to discourage workers from continuing to receive benefits. These state efforts are often justified by states under the aegis of fraud detection. However, setting up onerous and intrusive eligibility screens may drive away eligible unemployed workers who are truly in need, without detecting all fraudulent cases. State administrators, in turn, often suggest that the drop-outs are people who were committing fraud and therefore should not have been receiving benefits in the first place.

An important research desideratum related to this issue is to identify people who have dropped out and determine if they share common characteristics. Identifying the characteristics of this population could provide evidence that, for example, those who drop out are disproportionately low-wage workers who are foregoing their benefits simply because of a perception that the benefits are so low as to be not worth the effort to overcome bureaucratic hurdles. One solution to this problem, which should appeal to state administrators who wish to detect fraud without overly burdening recipients, would be to allow beneficiaries to schedule their own time to appear before a state administrator for benefit adjudication. This proposal has already been tested in some states.

LOW RECIPIENCY RATES

States face federal scrutiny on the speed at which they respond to an application for benefits, but they do not face official scrutiny on the percentage of eligible unemployed workers receiving benefits.

A separate but related issue to the high rate of drop-outs from the UI system is the declining rate of UI recipiency in many states. The UI recipiency rate is the proportion of unemployed workers receiving UI benefits in a state. The underlying issues of recipiency and drop-outs may be related, but the statistics capturing these trends are distinct. There are, of course, better records on the rates of drop-outs among UI beneficiaries than on the rates at which eligible workers do not seek benefits in the first place.**** States face federal scrutiny on the speed at which they respond to an application for benefits, but they do not face official scrutiny on the percentage of eligible unemployed workers receiving benefits. States face pressure to get their HCMs back to adequate levels, but there are no incentives for improving recipiency rates among workers in the state. One way states may achieve high HCMs is by making the application process overly burdensome or inaccessible to workers, thereby limiting the number of unemployed workers receiving benefits. States may do this without facing adverse legal consequences from federal administrators. Although DOL could issue guidance recommending action by states to improve recipiency rates, this measure would lack legal force and could be overturned by future administrations. In order to make meaningful improvements in the situation, federal lawmakers would have to establish new reporting requirements that take into account state recipiency rates.

**** However, the recipiency rate is one metric that may be used to estimate the extent to which workers are excluded from the UI system. See Will Kimball and Rick McHugh, 2015, "How Low Can We Go?: State Unemployment Insurance Programs Exclude Record Numbers of Jobless Workers," Briefing Paper #392, Economic Policy Institute, http://www.epi.org/files/2015/how-low-can-we-go-state-unemployment-r3.pdf.

Nonstandard Workers

Among the largest barriers preventing the UI system from fulfilling its most central purpose of providing income replacement to workers is its inability to adequately cover certain categories of workers. These workers are in a diversity of employment situations, but all share the common trait of not working in a traditional, full-time, nine-to-five job with a single, identifiable employer. Examples include those who have temp jobs, either with a single firm or with a placement agency; independent contractors, whether misclassified or not; contingent workers who do not expect their current employment to last; and part-time workers, whether involuntarily part-time or not.[14] The roundtable discussion touched on a number of UI policies and proposals that affect—and in many cases could help—workers in these situations. Two issues affecting some of these workers are the waiting week for benefit receipt and UI eligibility requirements. These will be discussed below.

THE WAITING WEEK

UI beneficiaries in most states must wait a week without benefits before receiving support, even after qualifying and being approved for benefits. Some roundtable participants likened this UI policy to a deductible in an insurance plan: laid-off workers are expected to spend down some of their own assets before receiving the insurance payments from the state UI program. Yet the waiting week is harmful for certain types of beneficiaries, especially those with nonstandard work arrangements.[15] In particular, temp workers who fill an employment position for a short period of time, and then are laid off again and again through the same benefit year, are at risk of being harmed by this system. Temp agencies may delay placing in another temp position workers who qualify for UI benefits just long enough until the waiting week is completed. This means that the worker must spend down her assets, in essence paying the deductible, but then be placed in another position in time so that the employer is not charged in experience rating for UI payments. A worker who experiences these multiple periods of unemployment within the same year could experience many waiting weeks. The income-smoothing function of the UI program would then be undermined.

Participants discussed the history of the waiting week to determine if there were policy arguments for maintaining the week. At the inception of the UI program, many states had waiting weeks, though some participants explained that this was probably for administrative expediency: processes were not automated at that time. The number of states with waiting weeks declined during the second half of the last century, but the federal government then enacted a policy in the 1980s that led many states to maintain or reestablish waiting weeks. The policy held that the federal government's EB program would not pay the first week of benefits if a state did not have a waiting week. This meant that states would have to cover the cost of the first week of EB, unless they had in place a waiting week for beneficiaries. Hence, the number of states with waiting weeks now stands at about 45. This may have been a fiscally responsible federal policy, but the number of occasions in which states have experienced first weeks of EB since this provision was enacted has been few. According to some roundtable participants, states have not reaped the benefit of this waiting-week policy (that is, by avoiding the cost of having to cover the first week of EB), and workers experiencing multiple periods of unemployment in a single year, often people earning low wages or working through a temp agency, have been disproportionately harmed.

ELIGIBILITY REQUIREMENTS

The requirements for receiving UI benefits in most states heavily favor those workers who have been laid off from standard employment relationships. Workers who have earned a living from some combination of nonstandard work often find that their benefit replacement rate is lower than it would be for a standard worker making the same amount, or they are excluded outright from receiving benefits. The reason for this disparity is that the monetary requirements test in UI looks not only at the amount of money a worker has earned in a base period, but also at the worker's attachment to the labor force. This test of labor-force attachment is especially problematic for independent contractors or temp workers who may earn a high proportion of their annual income in just a few weeks. Even if the overall amount earned would qualify for benefits under the monetary requirements test, the time dispersion for those earnings across the base period may not be sufficient to qualify for benefits. Solutions for this problem affecting nonstandard workers are not easy to come by. Any reform to eligibility requirements must maintain the balance between providing benefits to unemployed workers who need them, and avoiding disincentives to work.

Conclusion

The unemployment insurance system has been a pillar of economic security for working families for 80 years. It has weathered changes in work patterns and in the composition of the workforce that the program's designers could not have foreseen. Though its design has been strained by profound changes in demography, the economy, the labor market, the budgetary and competitive demands faced by state policymakers, and by the depth and duration of the Great Recession, its indispensability for the American economy is unquestioned. Policymakers today are faced with the challenge of finding innovative ways to modernize and reinvigorate the system.

ENDNOTES

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4 Richard A. Hobbie and Yvette J. Chocolaad, 2015, "Reemploying Unemployment Insurance Claimants: A Good Government Investment," in Carl Van Horn, Tammy Edwards, and Todd Greene, eds., *Transforming U.S. Workforce Development Policies for the 21st Century*, Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

5 Erica L. Groshen, 2011, "Temporary Layoffs during the Great Recession," Liberty Street Economics, Federal Reserve Bank of New York.

6 Louis S. Jacobson, Robert LaLonde, and Daniel Sullivan, 2005, "Is retraining displaced workers a good investment?" Economic Perspectives, Federal Reserve Bank of Chicago; LaLonde, Robert J., 1995, "The Promise of Public Sector-Sponsored Training Programs," *The Journal of Economic Perspectives 9*(2).

7 See, generally, Stephen A. Wandner, 2010, *Solving the Reemployment Puzzle: From Research to Policy*, Kalamazoo: MI: W.E. Upjohn Institute for Employment Research.

8 See Karen Needels, Irma Perez-Johnson, and Adam Dunn, 2015, "Implementation of the EUC08 Reemployment Services and Reemployment Eligibility Assessments Program: Findings from Nine States," Report, Mathematica Policy Research.

9 Dean Baker and Kevin Hassett, 2012, "The Human Disaster of Unemployment," *The New York Times*, May 12, 2012.

10 Wayne Vroman, 2013, "Short-Time Compensation and Job Preservation," Unemployment and Recovery Project, Working Paper 6, Urban Institute.

11 George Wentworth, Claire McKenna, and Lynn Minick, 2014, "Lessons Learned: Maximizing the Potential of Work-Sharing in the United States," National Employment Law Project.

12 See, for example, Wayne Vroman, 2011, "Unemployment Insurance: Problems and Prospects," Unemployment Insurance Brief #2, National Academy of Social Insurance.

13 A proposal for improved Extended Benefits triggers was advanced in March 2016 by Jared Bernstein and Ben Spielberg in Jared Bernstein and Ben Spielberg, (2016), "Preparing for the Next Recession: Lessons from the American Recovery and Reinvestment Act," Center on Budget and Policy Priorities. This proposal, however, does not maintain a congressional trigger, as discussed hypothetically by the roundtable participants.

14 Liz Ben-Ishai, Rick McHugh, and Claire McKenna, 2015, "Out of Sync: How Unemployment Insurance Rules Fail Workers with Volatile Job Schedules," National Employment Law Project.

15 Rick McHugh, Rebecca Dixon, Claire McKenna, and George Wentworth, 2015, "Unemployment Insurance Policy Advocate's Toolkit," National Employment Law Project.

Appendix: Roundtable Event

Location: National Academy of Social Insurance Offices
1200 New Hampshire Ave NW
5th Floor Conference Room
Washington, D.C.

Date: Friday, October 16th, 2015

Conveners

*Stephen Wandner, Visiting Fellow, Urban Institute and Visiting Scholar, W.E. Upjohn Institute for Employment Research
Moderating "Promoting Reemployment through Unemployment Insurance"

*William Rodgers, Professor and Chief Economist, Heldrich Center for Workforce Development, Rutgers University
Vice Chair, Board of Directors, National Academy of Social Insurance
Moderating "Priorities for Future Work on UI"

Moderators

*Richard Hobbie, Visiting Scholar, Heldrich Center for Workforce Development, Rutgers University
Moderating "Reinventing the UI Program"

*Christopher O'Leary, Senior Economist, W.E. Upjohn Institute for Employment Research
Moderating "The State of Unemployment Insurance Financing after the Great Recession"

Featured Speaker

*Suzanne Simonetta, Chief, Division of Legislation, Office of Unemployment Insurance, U.S. Department of Labor

Participants

*Dean Baker, Co-Director, Center for Economic and Policy Research

*Yvette Chocolaad, Policy Director, National Association of State Workforce Agencies

Paul Decker, President and Chief Executive Officer, Mathematica Policy Research

Gay Gilbert, Administrator, Office of Unemployment Insurance, U.S. Department of Labor

Claire McKenna, Policy Analyst, National Employment Law Project

*Sara Rix, Retired, AARP

Julie Squire, Policy Director, National Association of State Workforce Agencies

Jim Van Erden, Senior Policy Advisor, National Association of State Workforce Agencies

*Benjamin Veghte, Vice President for Policy, National Academy of Social Insurance

Anna Wadia, Senior Program Officer, Ford Foundation

*Jeffrey Wenger, Senior Policy Researcher, RAND

*George Wentworth, Senior Staff Attorney, National Employment Law Project

Note: For more information about the roundtable upon which this brief was based, please visit: **http://bit.ly/RethinkingUI_Event**

** Denotes member of the National Academy of Social Insurance*