

## Strengthening Unemployment Insurance for the 21st Century: An Agenda for Future Research

By Stephen A. Woodbury and Margaret C. Simms

The Great Recession has placed unusual demands and stress on the Unemployment Insurance (UI) program and revealed problems in the system's adequacy, coverage, funding, reemployment services, and administration. This brief presents an agenda of research questions that a panel of experts believe must be addressed in order to improve the UI program. It is the product of a national roundtable on *Strengthening Unemployment Insurance for the 21st Century*, convened by the National Academy of Social Insurance in Washington, DC, on July 13, 2010, and funded by the U.S. Department of Labor, the Annie E. Casey Foundation, the W.E. Upjohn Institute for Employment Research, and the DirectEmployers Association. The event brought together about 70 government officials, legislative staff, researchers, employer and worker representatives, and others. This brief elaborates on the research questions identified by the roundtable as essential to improving the UI program, including the following:

- When a single parent loses her job, is UI adequate to compensate for her loss of earnings and other earnings-related support?
- Why does the percentage of eligible workers who receive benefits vary so much across states? Have changes in eligibility requirements under the Unemployment Insurance Modernization Act increased UI reciprocity?
- What factors contribute to the lower percentage of unemployed blacks than whites receiving UI benefits?
- Which reemployment services are most effective, and how should services be tailored to different workers?
- What happens to workers who exhaust UI benefits and are unemployed over the long term? Should there be a program to assist UI exhaustees?
- How could an adequate and effective extended benefits program be structured?
- How effective is UI in stabilizing consumption in a recession? Do the stabilizing effects of UI differ under different methods of funding UI?
- What policies need to be adopted to ensure the solvency of state UI trust funds?
- What administrative resources are needed to ensure that workers who are entitled to benefits received those benefits in a timely manner?

### Summary

**Stephen A. Woodbury** is Professor of Economics at Michigan State University and Senior Economist at W.E. Upjohn Institute for Employment Research. **Margaret C. Simms** is Institute Fellow at the Urban Institute. **Benjamin Veghte**, Research Associate at the National Academy of Social Insurance, provided editorial assistance.

## Introduction

Prompted by the 75th anniversary of the Social Security Act, which established Unemployment Insurance (UI) as a state-federal program in 1935, and by the Great Recession, which has placed unusual demands and stress on the UI program, NASI convened an Unemployment Insurance roundtable on July 13, 2010. About 70 government officials, legislative staff, researchers, employer and worker representatives, and other interested parties debated and discussed the state of the program and its future. The roundtable has produced a report (available at from the NASI website at <http://www.nasi.org/research/unemployment-insurance>) synthesizing current knowledge on six aspects of UI and proposing an agenda for future research. This brief summarizes the roundtable sessions and then describes the research agenda suggested by the roundtable's UI experts (see p. 8 of this brief for the list of experts).

## Roundtable Sessions

The roundtable was organized into six panels on the following features of the UI program:

1. *Administration of Unemployment Insurance:* Even before the Great Recession, the performance of the UI system and its capacity to serve unemployed workers was in long-term decline. The infrastructure of the system is aging, and funding to upgrade the system's information technology is not available. UI administrators believe the funding for current administration of the system, including delivery of reemployment services, is inadequate. This panel concluded that the budgeting process for UI administrative funding must be overhauled.
2. *Views of Stakeholders:* Surprisingly, representatives of employers and workers agree on most issues relating to the UI system. For example, they agree on the need to increase funding for both the administration of the UI system and for reemployment services. They also agree that the structure and funding of the extended benefits (EB) program, which provides additional weeks of UI benefits in states with high unemployment rates, should be overhauled, and that the federal government will need to provide relief to states that have borrowed because their trust funds became insolvent during the recession.
3. *Eligibility Requirements and Benefit Adequacy:* Two major changes in the labor market have occurred since UI was introduced in 1935. First, women have become nearly half of the workforce. Because they are more likely than men to have nontraditional working arrangements, women are often ineligible for UI even though they have sufficient earnings histories. Second, the share of unemployed workers who have permanently lost their jobs has increased. Existing UI benefits and reemployment services are inadequate to address the problems these workers face. This panel discussed the implications of these changes in the labor market for reform of the UI system.
4. *The UI Payroll Tax: The Taxable Wage Base and Experience Rating:* The wage base on which UI payroll taxes are collected is low (in 2010 most states taxed only the first \$12,000 of a worker's wages or less) and fixed (that is, not indexed to wages) both at the federal level and in most states. This has two implications. First, because the burden of the payroll tax tends to fall on workers, the tax is regressive. Second, UI tax revenues rise more slowly than wages, which leads to lower UI trust fund balances, greater likelihood of insolvency when a recession hits, and pressure to reduce benefits. The panel suggested that increasing the taxable wage base would mitigate both problems. Also, an employer's UI tax rate is only partially based on that employer's layoff history, so more stable industries effectively subsidize the UI benefits of more volatile industries. While to some extent this is inherent in the insurance character of UI, some panel participants found the current degree of cross-subsidization to be problematic.

5. *Solvency of Unemployment Insurance:* As of September 2010, the UI trust funds of 31 states were insolvent, and these states had borrowed over \$39 billion from the federal government to pay UI benefits. The need to borrow reflects a move away from “forward funding” of UI, which in turn has reduced the ability of UI to serve as an automatic stabilizer during a recession. This panel noted that most solvent states have a taxable wage base that is indexed to wages, which suggests that indexing the wage base could improve both forward funding and program solvency.
6. *Getting Workers Back to Work:* Participants agreed that reemployment services are an essential part of UI, that funding for these services should be increased, and that different reemployment strategies are required during a recession than in normal times. The panel noted that, while enforcing job search requirements makes sense in times of low-to-moderate unemployment, it may not be suitable in a weak labor market such as that of the Great Recession and its aftermath. In a weak labor market, labor-demand strategies such as work sharing (cutting working hours across the board until demand for output returns to normal), wage insurance (compensating displaced workers for part of their wage decline when they become reemployed at a lower wage), and wage-bill subsidies (reimbursing employers for a portion of wages paid workers who would otherwise be unemployed) are more likely to succeed.

The presentations (available from the NASI website at <http://www.nasi.org/events/125/event-presentations-materials>) and discussion during these panels raised questions that could not be answered on the basis of existing research and suggested the following topics for future work.

## An Agenda for Research

The inefficiencies and inequities in the UI system today have evolved from a combination of changes in the labor market over time and features of the UI system itself. The complexity of these problems calls for a comprehensive research effort focused on the following issues.

1. **Could the quality of services provided to unemployed workers be improved by reforming the way resources are allocated for administering the UI program?**

The Federal Unemployment Tax Act (FUTA) levies a federal payroll tax on employers, and FUTA revenues finance administration of the UI program, as well as the federal portion of the EB program, loans to states with insolvent trust funds, and other related federal costs including employment services. Despite the existence of these FUTA revenues, UI administration competes for funding with all other domestic discretionary programs. What are the effects of the existing funding method on how well UI serves unemployed workers and their families? What is the best method of allocating resources for UI administration to the states?

2. **What are the causes of and potential solutions to declining UI administrative performance?**

The declining performance of the UI system — demonstrated by longer waiting times for benefit payments and slower disposition of appeals — has long been a concern, and difficulties during the Great Recession have heightened this concern. What is the relationship between the level of funding for UI administration and the performance of the system? How could the system be reformed to better serve unemployed workers, given the existing administrative structure?

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**3. Have changes in eligibility requirements under the Unemployment Insurance Modernization Act of 2008 (UIMA) had their intended effects?**

In the wake of the UIMA, many states have changed nonmonetary eligibility requirements for UI, making it easier for many workers who previously would have been denied benefits to qualify. Have the changes in eligibility requirements had their intended effects? What are the characteristics of workers who now qualify but would have been denied benefits in the past? How many workers have been affected by the changes encouraged by UIMA? What are the financial implications of changes in eligibility requirements?

**4. Why does the percentage of eligible workers who receive benefits vary so much across states?**

It is well known that the UI reciprocity rate – the ratio of the insured unemployed (i.e., regular UI claimants) to the total number of unemployed – varies significantly across the states and that many workers who are eligible for benefits do not claim them. UI reciprocity has been the subject of research in the past because the program’s effectiveness in stabilizing consumption during recessions depends on a high rate of participation, but answers to questions about reciprocity have been elusive. What are the determinants of UI reciprocity at the state level? Why has the UI reciprocity rate trended down over time? What factors contribute to eligible workers not claiming benefits? Would outreach programs, especially to low-wage workers, be effective in boosting UI reciprocity?

**5. When a single parent loses her job, is UI adequate to compensate for her loss of earnings and other earnings-related support?**

The 1996 welfare reform sought to make assistance to low-income families more dependent on their participation in the labor market. When a single parent loses her job, the household loses more than just earnings — it may also lose employer-provided health insurance, income from the Earned Income Tax Credit, and support for childcare. What happens to the consumption level of a single-parent household when the parent loses her job? Is UI adequate to compensate for the loss of earnings and of other earning-related support? Moreover, what is the effect of job loss on the well-being of children in a single-parent household? To what extent does the UI dependents’ allowance help close the consumption gap created by unemployment in a single-parent household?

**6. What factors contribute to the lower percentage of unemployed blacks than whites receiving UI benefits?**

A National Urban League report concluded, “Unemployed blacks are more likely to be excluded from unemployment benefits than their white counterparts, [and] restrictive state unemployment eligibility rules disproportionately exclude blacks.” What factors contribute to the lower percentage of unemployed blacks than of unemployed whites receiving UI benefits? What could be done to address the issue? Are there inequities among groups of UI claimants that could be addressed?

**7. How could an adequate and effective extended benefits program be structured?**

Dissatisfaction with the existing extended benefits (EB) program, which has existed since 1970, is widespread. EB activates when a state’s unemployment rate rises sharply or reaches a high level, but over the years Congress has changed the “triggers” that activate the program so as to make the program less likely to activate. As a result, EB has activated less often, and Congress has stepped in with “emergency” programs that provide additional benefits to workers who have exhausted regular state UI benefits. Emergency Unemployment Compensation (EUC-08), passed on June 30, 2008, is the most recent of these programs. EUC-08’s complex provisions have been confusing to claimants and difficult for states to administer because those provisions have changed frequently and needed to be implemented quickly. How could an adequate and effective extended benefits program be structured? What are the goals such a program would need to meet, and what combination of triggers and UI

durations would satisfy those goals? Should such a program be funded entirely by the federal government, or should funding be shared by the federal government and the states?

**8. What happens to workers who are unemployed over the long term?**

In structuring extended benefits and other programs for the long-term unemployed, there is a need to know what happens to long-term unemployed workers. For example, how many leave the labor force, and how many become reemployed? Among those who find a new job, what strategies and programs work for them, and what role does workforce development play in their reemployment? To what occupations and industries do they move? How do those who leave the labor force support themselves? Are there systematic differences between those who leave the labor force and those who find a new job, and could an understanding of these differences help in directing reemployment services to those most likely to take advantage of them?

**9. Who bears the burden of the UI payroll tax and does this vary across industry or type of employer?**

Although the payroll tax is collected from employers, economists generally assume (and some research has suggested) that most of the tax is ultimately paid for by workers in the form of lower wages and salaries. The roundtable discussion suggested skepticism about the conclusions economists have reached, and some important qualifications to those conclusions may be necessary. Who bears the burden of the UI payroll tax and why? Does the burden of the payroll tax vary across industry or type of employer? What would be the effects, if any, of collecting part of the UI payroll tax directly from workers?

**10. How can the system of funding UI be made more efficient and the burden be shared more equitably among employers, without undermining the program's insurance character?**

The UI payroll tax is experience rated, meaning an employer's unemployment insurance tax rate is tied to past layoff experience. But the methods of experience rating lead to stable firms and industries subsidizing the UI benefits of workers laid off from unstable firms and industries. The resulting inter-firm and inter-industry cross-subsidies persist over many years. Can the inequities and inefficiencies created by the existing methods of experience rating be reduced without destroying the insurance character of UI? If so, how?

**11. What are the macroeconomic effects of regular and extended UI benefits, and how do these effects vary under different methods of funding, especially forward funding versus borrow-and-repay?**

A central goal of UI is to provide countercyclical stimulus and smooth consumption patterns over the business cycle. In the last 15 years, many states have lowered UI payroll tax rates and maintained lean UI trust funds. These states' trust funds became insolvent during the Great Recession, requiring them to borrow from the federal government to pay UI benefits. Is the countercyclical effectiveness of UI undermined when states abandon traditional forward funding in favor of borrowing and repaying? What are the macroeconomic effects of UI and extended benefits, and how do those effects differ under different methods of funding? How effective are regular and extended UI benefits in smoothing consumption?

**12. What policies would prevent state UI trust funds from becoming insolvent?**

Empirical evidence suggests that, when a state indexes its taxable wage base to wage growth, its trust fund is less likely to become depleted. However, one panelist questioned whether this relationship is causal, and suggested that other factors could also contribute to insolvency — large manufacturing, agriculture, and construction sectors, or large urban areas, for example. What factors contribute to state trust fund insolvency? What policy changes would ensure that state UI trust funds remain solvent, even in a recession?

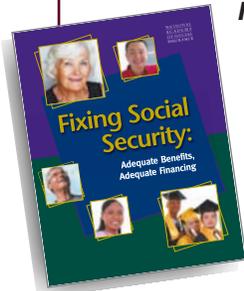
### 13. Which reemployment services are most effective?

The perceived need for additional reemployment services came up repeatedly during the roundtable. Although much research on the impacts of reemployment services already exists, it remains unclear whether states would know how to use additional funds effectively if they were available. Which reemployment services are most effective? How does the effectiveness of various reemployment services vary over the business cycle? How should services be directed — that is, which services are most effective with different kinds of workers? Which services are best suited to a worker given his or her age, education, earnings history, former occupation, and job tenure?

## Conclusion

The Great Recession has revealed problems with the UI system that have led many to question whether the program is fulfilling its basic goals. Redressing the problems will require the guidance of research and concerted efforts by state and federal program administrators as well as by employer and employee representatives. The panel of experts assembled by NASI identified the questions outlined above as essential — that is, directing research toward these questions would pave the way for urgently needed reforms. Such reforms could ensure that the program serves the purposes it is intended to serve well into the 21st century: Providing temporary wage replacement as a matter of right to involuntarily unemployed workers; facilitating the productive reemployment of those workers; and providing countercyclical stimulus to the economy through an equitable and efficient system of funding.

### Also Available from NASI



#### ***Fixing Social Security: Adequate Benefits, Adequate Financing***

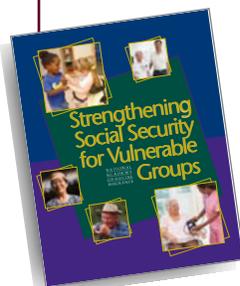
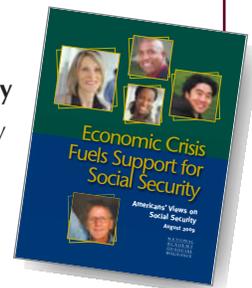
Policy options to bring Social Security into long-range balance in ways that address concerns about benefit adequacy

Virginia P. Reno and Joni Lavery, October 2009

#### **Economic Crisis Fuels Support for Social Security**

Report of poll findings on Americans' views of Social Security supported by the Rockefeller Foundation

Virginia P. Reno and Joni Lavery, August 2009



#### **Strengthening Social Security for Vulnerable Groups**

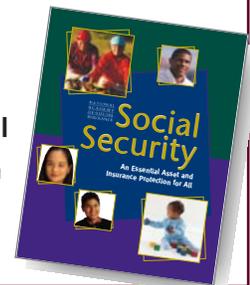
Synthesis report of proposals to improve Social Security Benefits

National Academy of Social Insurance, January 2009

#### **Social Security: An Essential Asset and Insurance Protection for All**

Synthesis report of research and outreach supported by the Ford Foundation

National Academy of Social Insurance, February 2008



# ***Strengthening Unemployment Insurance for the 21st Century***

**A National Roundtable Sponsored by  
The National Academy of Social Insurance with the Department of Labor,  
the Annie E. Casey Foundation, the W.E. Upjohn Institute for Employment Research  
and the DirectEmployers Association**

July 13, 2010 • 9:30 am – 4:30 pm • Hall of States, 444 North Capitol Street NW, Washington, DC

- 9:30am **Conference Welcome**  
Margaret Simms, The Urban Institute
- 9:35am **Panel 1: Unemployment Insurance Administration**  
Margaret Simms, The Urban Institute (Moderator)  
Gay Gilbert, U.S. Department of Labor  
Rochelle Webb, Arizona Department of Economic Security
- 10:15am **Panel 2: Views of Stakeholders**  
Charles Betsey, Howard University (Moderator)  
Douglas J. Holmes, UWC — Strategic Services of Unemployment and Workers' Compensation  
Andrew Stettner, National Employment Law Project
- 11:00am **Break**
- 11:10am **Panel 3: Eligibility Requirements and Benefit Adequacy**  
Harry Holzer, Georgetown University and the Urban Institute (Moderator)  
Till von Wachter, Columbia University  
Luke Shaefer, University of Michigan
- Noon **Lunch**
- 12:30pm **Luncheon Speaker**  
Jane Oates, Assistant Secretary of Employment and Training Administration,  
U.S. Department of Labor  
Q&A
- 1:00pm **Panel 4: The UI Payroll Tax: Forward Funding and Experience Rating**  
Erica Groshen, Federal Reserve Bank of New York (Moderator)  
Patricia Anderson, Dartmouth College  
Gary Burtless, The Brookings Institution
- 1:45pm **Panel 5: Solvency of Unemployment Insurance**  
Ralph Smith, Congressional Budget Office (retired) (Moderator)  
Rich Hobbie, National Association of State Workforce Agencies  
Wayne Vroman, The Urban Institute
- 2:30pm **Break**
- 2:45pm **Panel 6: Getting Workers Back to Work**  
Roberta Gassman, Wisconsin Department of Workforce Development (Moderator)  
Bill Warren, DirectEmployers Association  
Dan Black, Harris School, University of Chicago  
Christopher O'Leary, W.E. Upjohn Institute
- 3:30pm **Further Discussion and Proposals for Sweeping Reform**  
Joseph Quinn, Boston College (Moderator)
- 4:15pm **Wrap up**  
Margaret Simms, The Urban Institute  
Stephen Woodbury, Michigan State University and W.E. Upjohn Institute

## *Strengthening Unemployment Insurance for the 21st Century*

*List of Roundtable Participants (in alphabetic order)*

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|---|--|---|---|
| Patricia Anderson<br>Dartmouth College                              | Andrew Grant-Thomas<br>Kirwan Institute                            | Diana Noel<br>National Conference of<br>State Legislatures              | Andrew Stettner<br>National Employment<br>Law Project   |
| Michael Belitzky<br>State of Florida,<br>Washington Office          | Janice Gregory<br>National Academy of<br>Social Insurance          | Jane Oates<br>U.S. Department of Labor                                  | Betsey Stevenson<br>U.S. Department of Labor  |
| Charles Betsey<br>Howard University                                 | Erica Groshen<br>The Federal Reserve Bank<br>of NY                 | Christopher O'Leary<br>W.E. Upjohn Institute for<br>Employment Research | Bruce Vavrichek<br>Congressional Budget<br>Office   |
| Dan Black<br>University of Chicago                                  | Darrick Hamilton<br>New School for Social<br>Research              | Rob Pavosevich<br>U.S. Department of Labor                              | Sandi Vito<br>Pennsylvania Department<br>of Labor and Industry  |
| Heather Boushey<br>Center for American<br>Progress                  | Diedra Henry-Spires<br>Senate Committee on<br>Finance              | Joseph Quinn<br>Boston College  | Till von Wachter<br>Columbia University   |
| Laura Boyett<br>Maine Department of<br>Labor                        | Rich Hobbie<br>National Association of<br>State Workforce Agencies | Les Range<br>Mississippi Department of<br>Employment Security           | Wayne Vroman<br>The Urban Institute   |
| Margot Brandenburg<br>Rockefeller Foundation                        | Douglas Holmes<br>UWC  | Valerie Rawlston Wilson<br>National Urban League                        | Anna Wadia<br>Ford Foundation   |
| Michael Branson<br>Office of Management<br>and Budget               | Harry Holzer<br>The Urban Institute                                | Virginia Reno<br>National Academy of<br>Social Insurance                | Stephen Wandner<br>U.S. Department of Labor   |
| Alex Brill<br>American Enterprise<br>Institute                      | Carole Kitti<br>Office of Management<br>and Budget                 | Neil Ridley<br>CLASP  | Bill Warren<br>DirectEmployers<br>Association   |
| Gary Burtless<br>Brookings Institution                              | Linda Lawson<br>National Governors<br>Association                  | Christine Riordan<br>National Employment<br>Law Project                 | Rochelle Webb<br>Arizona Department of<br>Economic Security   |
| Tom Crowley<br>U.S. Department of Labor                             | Rick McHugh<br>National Employment<br>Law Project                  | Jesse Rothstein<br>U.S. Department of Labor                             | Matt Weidinger<br>House Committee on Ways<br>and Means  |
| Barbara DesMarteau<br>U.S. Department of Labor                      | Nanine Micklejohn<br>AFSCME  | Luke Shaefer<br>University of Michigan                                  | George Wentworth<br>National Employment Law<br>Project  |
| Indivar Dutta-Gupta<br>House Committee on Ways<br>and Means         | Mike Miller<br>U.S. Department of Labor                            | Andrew Sherrill<br>U.S. Government<br>Accountability Office             | Julie Whittaker<br>Congressional Research<br>Service  |
| Roberta Gassman<br>Wisconsin Department of<br>Workforce Development | Roy Mulvaney<br>Montana Department of<br>Labor & Industry          | Margaret Simms<br>The Urban Institute                                   | Ron Wilus<br>U.S. Department of Labor   |
| Gay Gilbert<br>U.S. Department of Labor                             | Demetra Nightingale<br>The Urban Institute                         | Allison Slayton<br>National Employment<br>Law Project                   | Stephen Woodbury<br>W.E. Upjohn Institute for<br>Employment Research and<br>Michigan State University |
| Wayne Gordon<br>U.S. Department of Labor                            |  | Ralph Smith<br>Congressional Budget<br>Office (Retired)                 |   |

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