

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%
- Reciprocity 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

	National	MA	FL
Reciency Rate	26%	44	11
Potential Duration	Mostly 26 weeks	30	9-12
Wage Replacement	33%	56	30
Taxable Wage Rate	\$7000	15000	7000
Average Tax on Total Wages	0.61%	0.73	0.24

Uneven Benefit & Reemployment Provisions

	No. of States	MA	MS
Benefits			
Search for Part-Time by P-T Workers	34	Y	N
Follow Spouse (Impractical Commute)	26	Y	N
Alt. Base Period	47	Y	N
Reemployment			
Work Sharing	28	Y	N
Self-Employ Assistance	8	N	Y

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