Restoring Unemployment Insurance as Social Insurance

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Social versus Private Insurance

Social Insurance	Private Insurance
Compulsory	Voluntary
Social minimum income replaced	Amounts dependent on willingness to pay
Provide socially adequate benefits	Emphasis on individual equity
Benefits prescribed by law	Benefits established by legal contract
Government monopoly	Competition
Costs difficult to predict	Costs actuarially predictable

Emergence of UI

- Widespread hardship in the 1930s made public relief palatable
- Involuntary unemployment was recognized as an unavoidable risk
- Economic loss from unemployment establishes a presumed need
- Unemployment insurance (UI) was regarded as superior to relief for experienced workers

Economic Rationale for UI

Market failure—private UI markets would collapse

- Low risk pools–profitable
- High risk pools–uninsurable
  - Would generate a social assistance problem

UI as a public good

- Reduces unemployed becoming a social burden
- An automatic stabilizer for the macroeconomy

UI in Social Security Act of 1935

- Established federal-state UI under Title III where states administer programs under state rules
- Federal tax incentive for state UI laws
  - Employer tax reduced by 90% in conforming states
- Title IX established Unemployment Trust Fund and Employment Security Admin Account
- Title XII provides crisis loans to states for UI
- Federal Unemployment Tax Act (FUTA) 1939
  - Title IX taxing provision moved to Internal Revenue Service (IRS) code chapter 23

Social Security Act, 1935

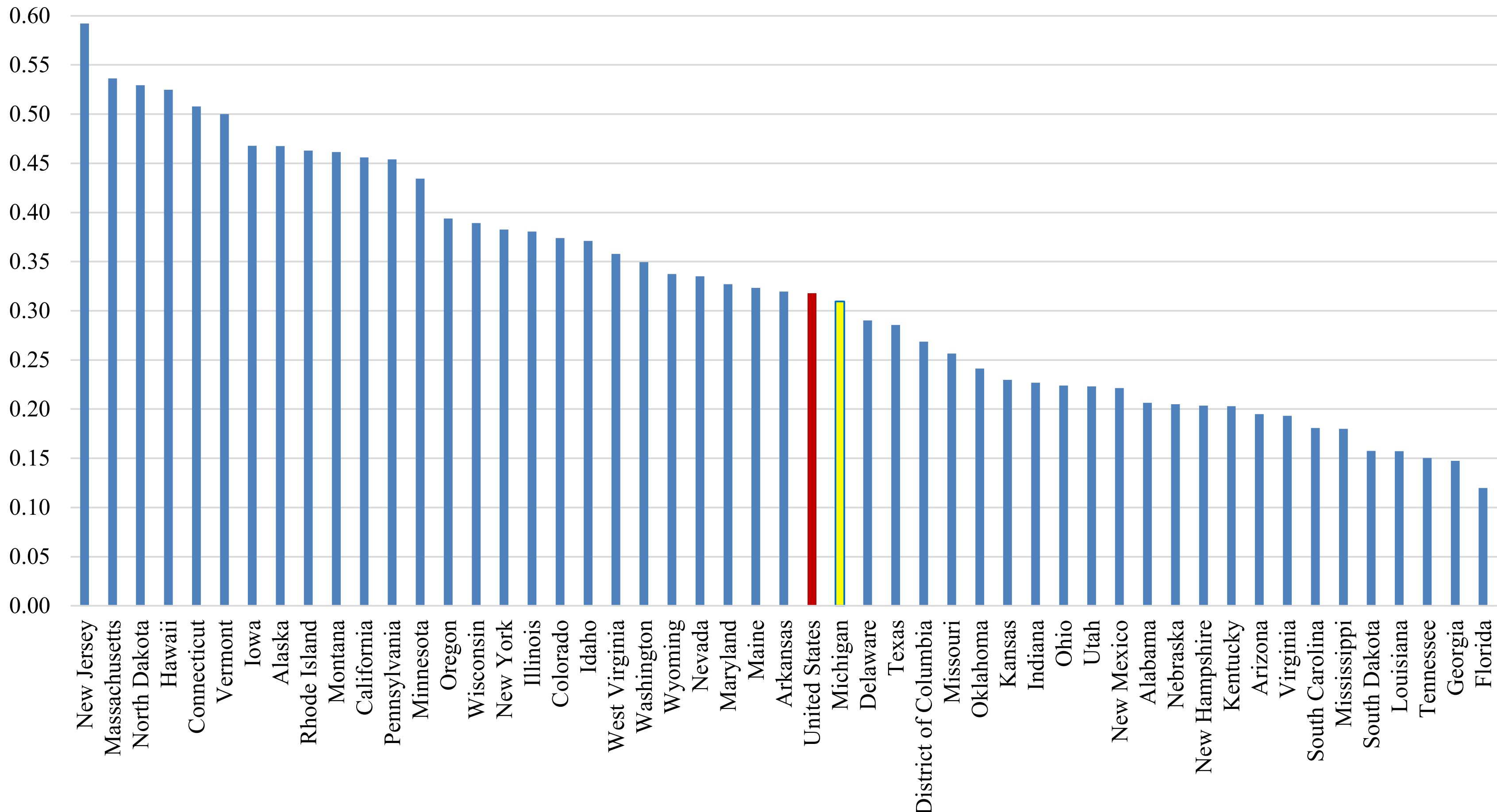
Original UI Policy Goals

- Partial income replacement during unemployment
- Prevent descent into poverty
- Automatic stabilizer for the macroeconomy
- Maintain employer attachments through benefits
- Reduce layoffs through experience rating of taxes
- Promote reemployment via required work search (work test) and employment services
- Finance through independent reserves with benefits equal to tax contributions over business cycles

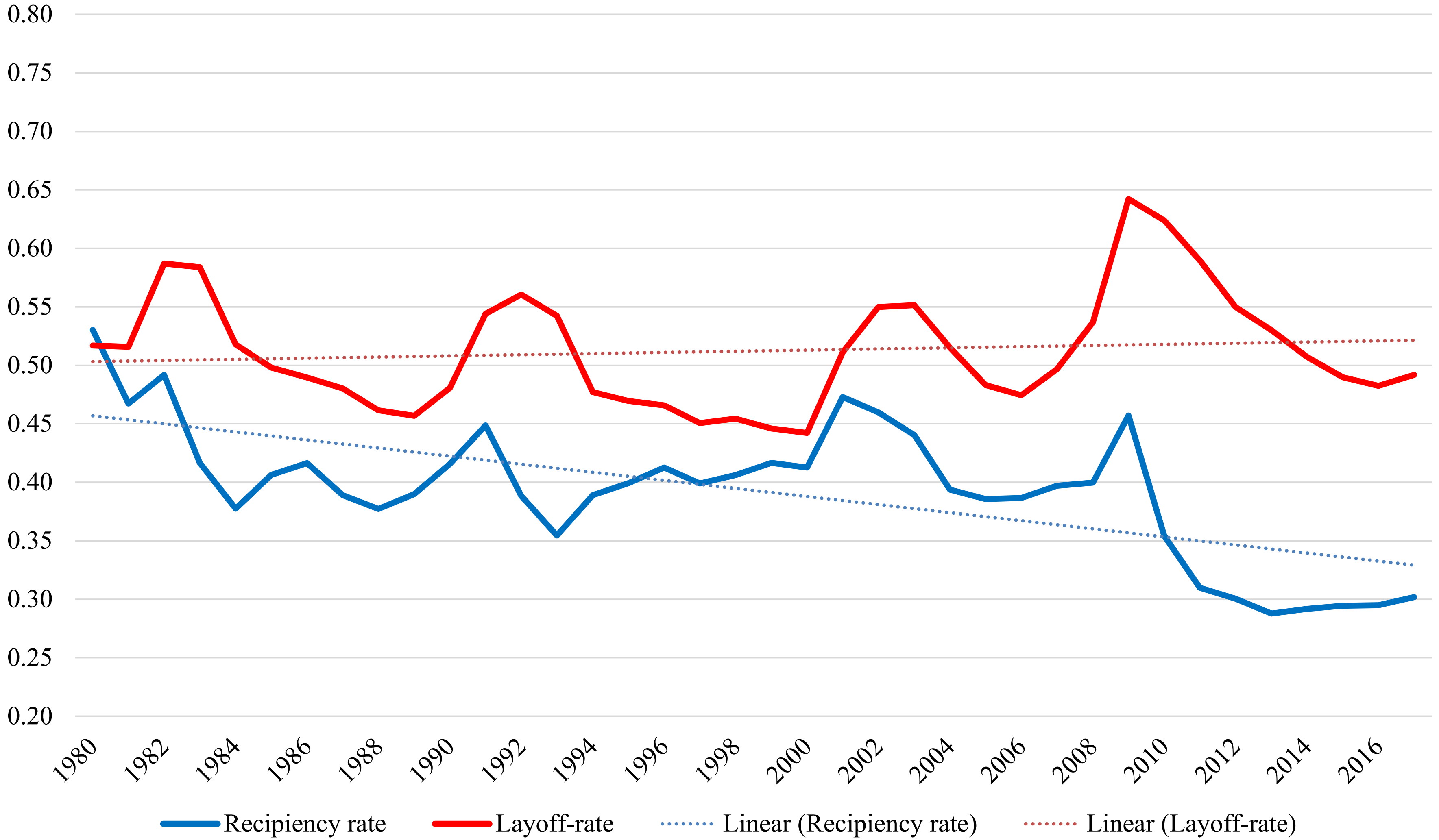
Restoring UI

- Eligibility – recipiency has declined
- Benefits – wage replacement rates have fallen
- Forward financing – has deteriorated
- Experience rating – is less effective
- Automatic stabilizer – is weaker
- Extended benefits – are not automatic
- Reemployment initiatives – are not available in all states Work Sharing and Self-Employment

UI Recipiency by State, 2017



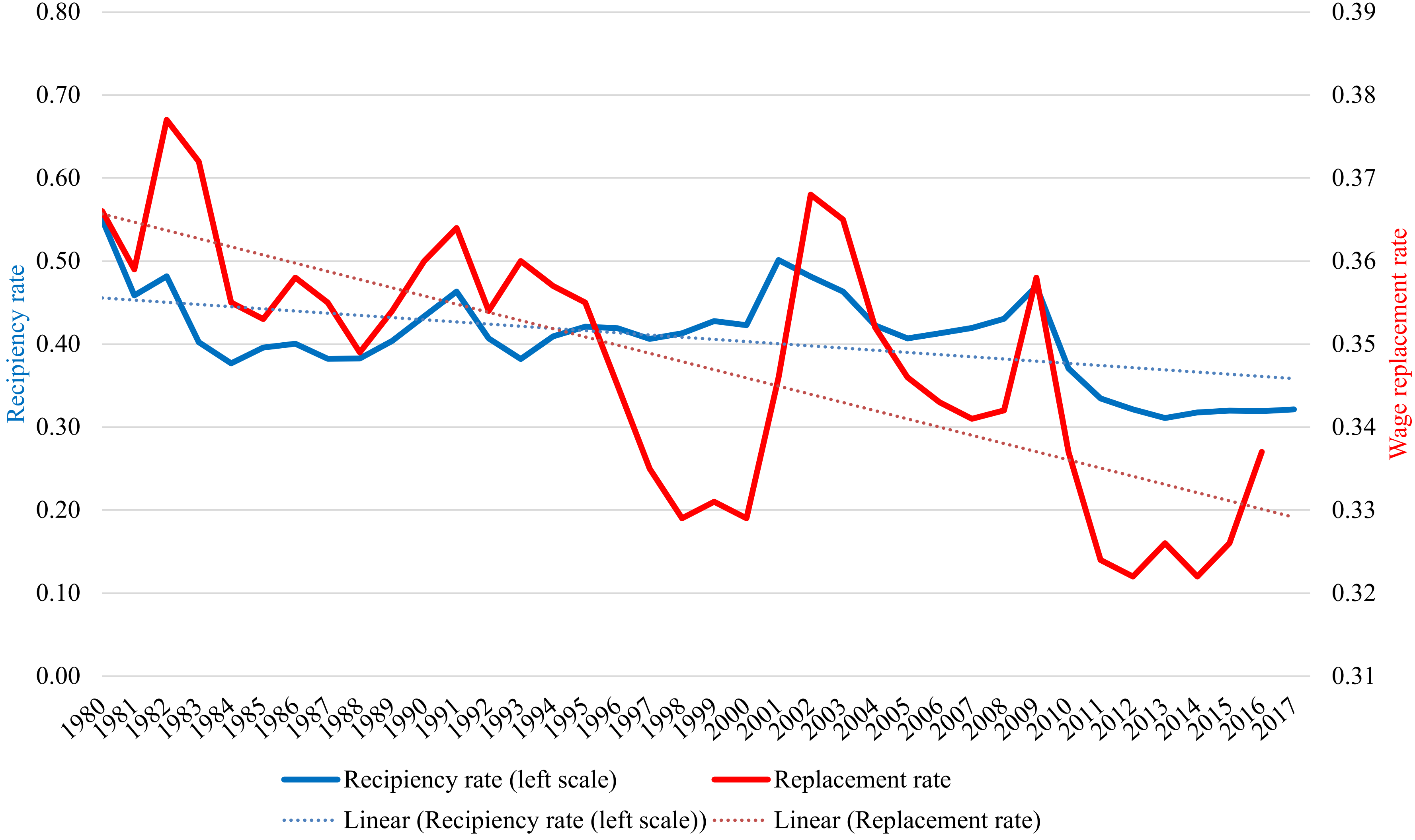
Regular UI Recipients and Layoffs as Shares of the Unemployed, 1980-2017



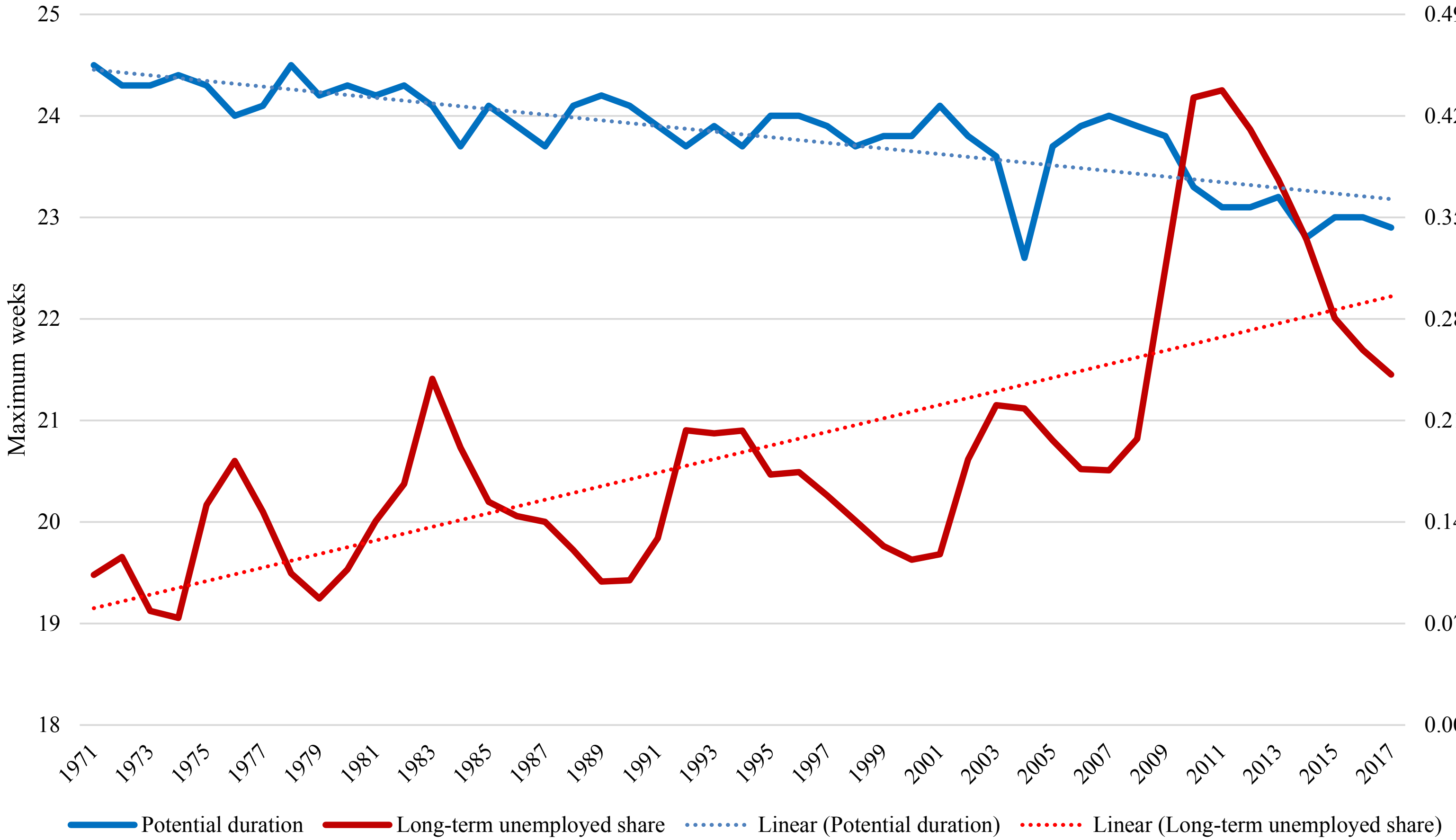
Suggested Eligibility Rules

- Involuntarily unemployed
- Actively seeking work
- Attached to the labor force – accessible threshold
  - High quarter earnings at least $1,000
  - Base period earnings >= 1.5*HQE = $1,500
- Base period 4 of previous 4 or 5 quarters (ABP)
- If usually full- or part-time and seeking same
- Allow personal and family good cause quits
- No income or household size rule – no means test

Regular UI Recipiency and Wage Replacement Rates in the United States, 1980-2017



Average Potential Weeks Duration of Regular UI and the Share of Total Unemployed who are Jobless for 27 Weeks or Longer in the United States, 1971-2017



Adequate Income Replacement

- Socially adequate benefits while involuntarily unemployed and seeking work.
- Proposed reforms:
  - Replace half of lost earnings between limits.
    - Minimum at a higher replacement rate.
    - Maximum at two-thirds average weekly wage in state.
  - Potential duration at least 26 weeks.

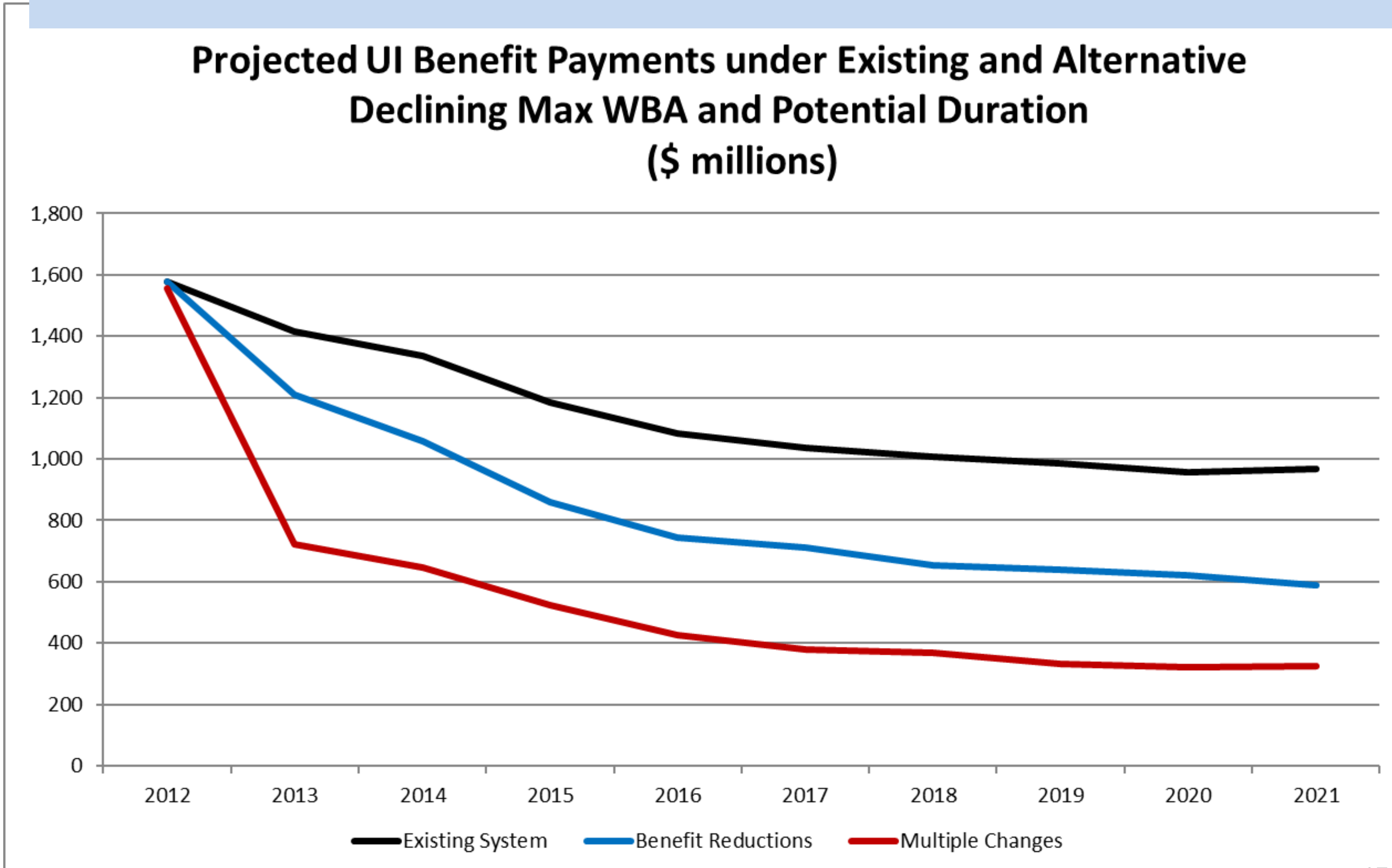
States That Reduced the Maximum Duration of Unemployment Insurance Benefits to Fewer Than 26 Weeks Since 2011			
State	Maximum benefit duration before reduction (weeks)	New maximum benefit duration (weeks)	Change became effective (year)
Arkansas	26	9-16	2011
Florida	26	12-23 (12)	2011
Georgia	26	6-20 (14)	2012
Illinois*	26	25 (26)	2012
Kansas	26	16-26	2013
Michigan	26	20	2012
Missouri	26	8-20	2011
North Carolina	26	12-20	2013
South Carolina	26	13-20	2011

Source: DOL, Comparison of State Unemployment Laws, selected years, and GAO analysis of relevant state laws. | GAO-15-281. *Illinois 25 week maximum duration effective only in 2012.

Automatic Macroeconomic Stabilizer

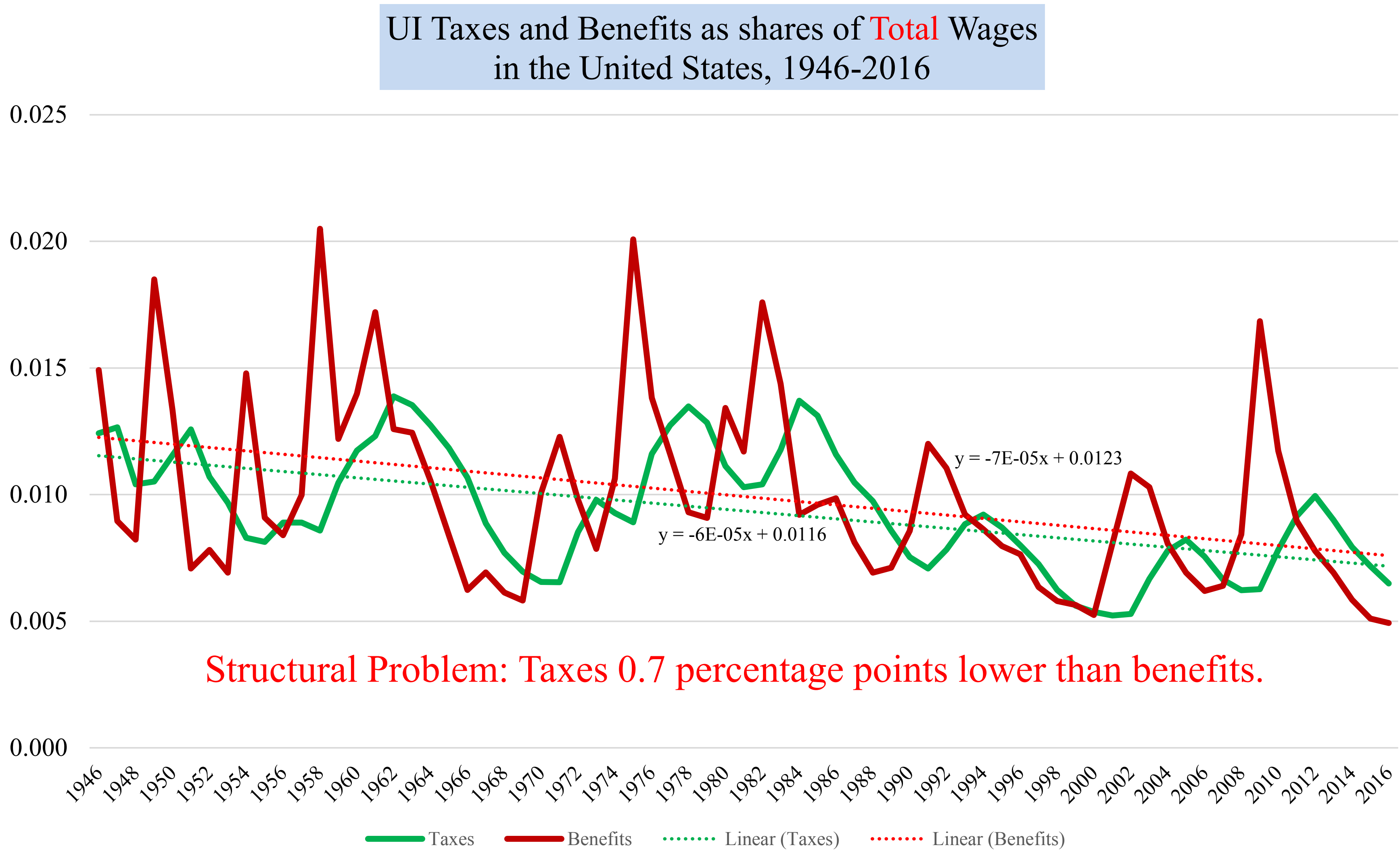
- When unemployment rises UI injects spending to consumers with high propensities to spend.
- As unemployment falls reserves are rebuilt.
- UI income multiplier estimate 2.5 over prior 6 recessions (Chimerine et al. USDOL 1999).
- Regular UI eroded; EB triggers ineffective.
- Forward funding is insufficient.
- Counter-cyclical strength is weaker than 2010.

Automatic Macroeconomic Stabilizer



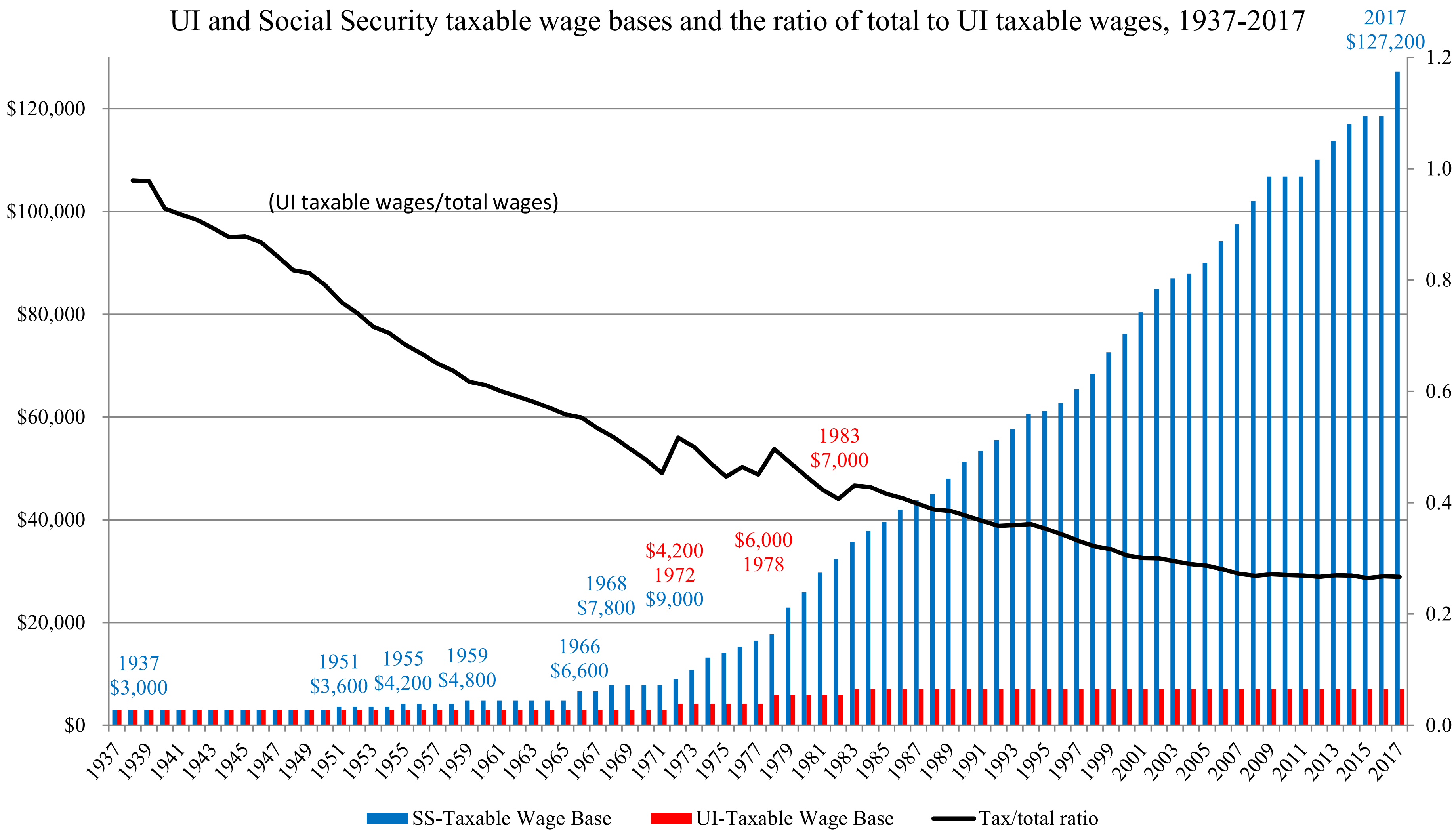
Benefit levels and durations rose and declined with financing adequacy

	State Maximum Durations		Waiting Weeks		Taxable Wages		Avg. Tax Rates	
Year	LE16	GE 26	Low	High	Low	High	Total	Taxable
1936					100%	100%	0.90	0.90
1937					100%	100%	1.80	1.80
1938					100%	100%	2.70	2.70
1939	43	0	2	4	3,000	3,000	2.66	2.72
1959	0	51	0	1	3,000	4,200	1.06	1.71
1979	0	51	0	1	6,000	11,200	1.26	2.67
1999	0	51	0	1	7,000	27,500	0.56	1.77
2012	2	46	0	1	7,000	38,800	0.90	3.40
2014	2	45	0	1	7,000	41,300	0.79	2.95
2018	3	45	0	1	7,000	47,300	0.58	2.21



UI Taxes and Benefits as shares of Total Wages
in the United States, 1946-2016
0.025
0.020
0.015
0.010
0.005
0.000
y = -7E-05x + 0.0123
y = -6E-05x + 0.0116
Structural Problem: Taxes 0.7 percentage points lower than benefits.
1946 1948 1950 1952 1954 1956 1958 1960 1962 1964 1966 1968 1970 1972 1974 1976 1978 1980 1982 1984 1986 1988 1990 1992 1994 1996 1998 2000 2002 2004 2006 2008 2010 2012 2014 2016
Taxes
Benefits
Linear (Taxes)
Linear (Benefits)

UI and Social Security taxable wage bases and the ratio of total to UI taxable wages, 1937-2017



Restore Forward Funding

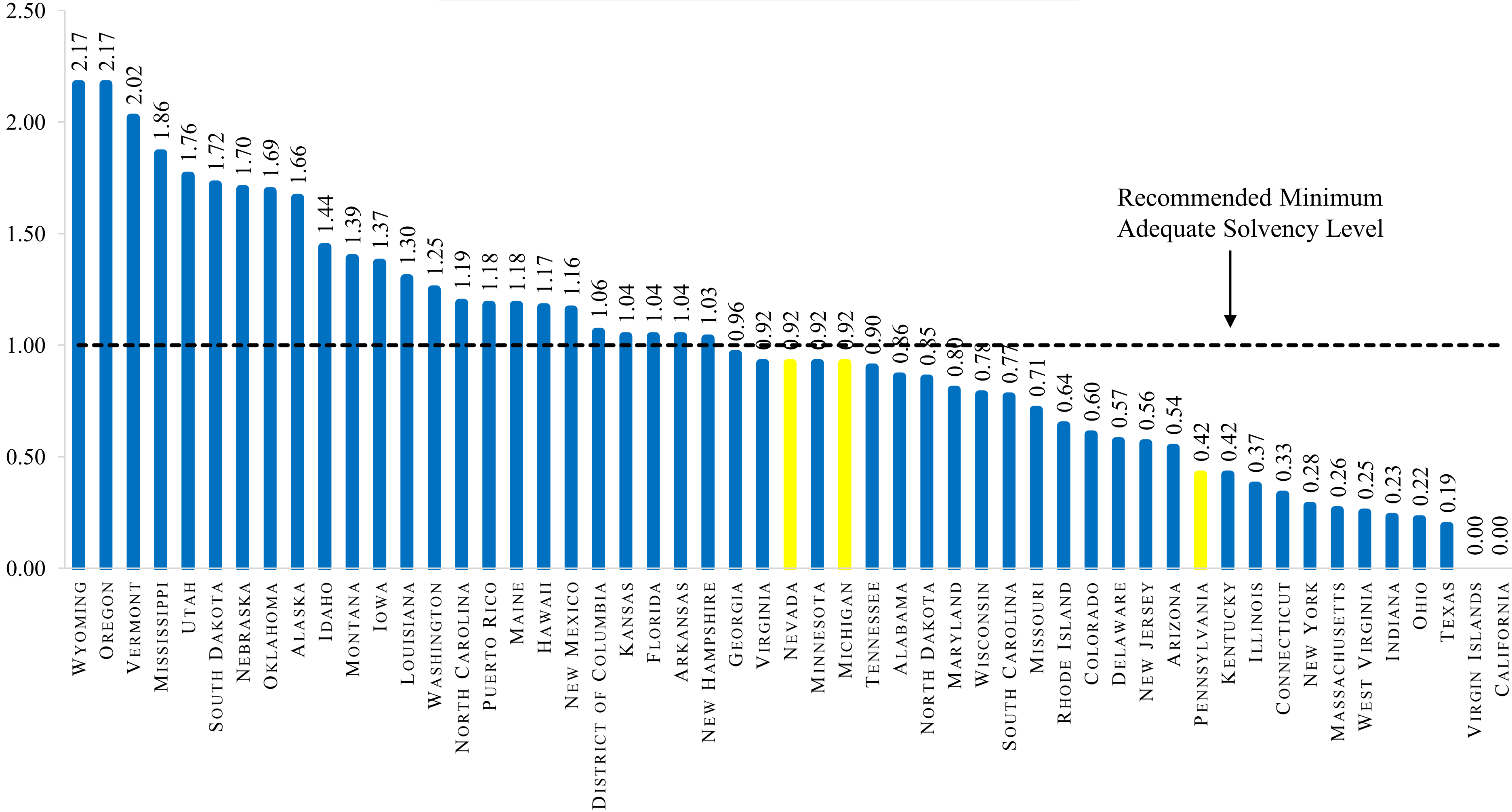
Index the FUTA taxable wage base

- The FUTA base is the minimum for states
- Recommendation: peg the FUTA wage base to a proportion of the Social Security tax base

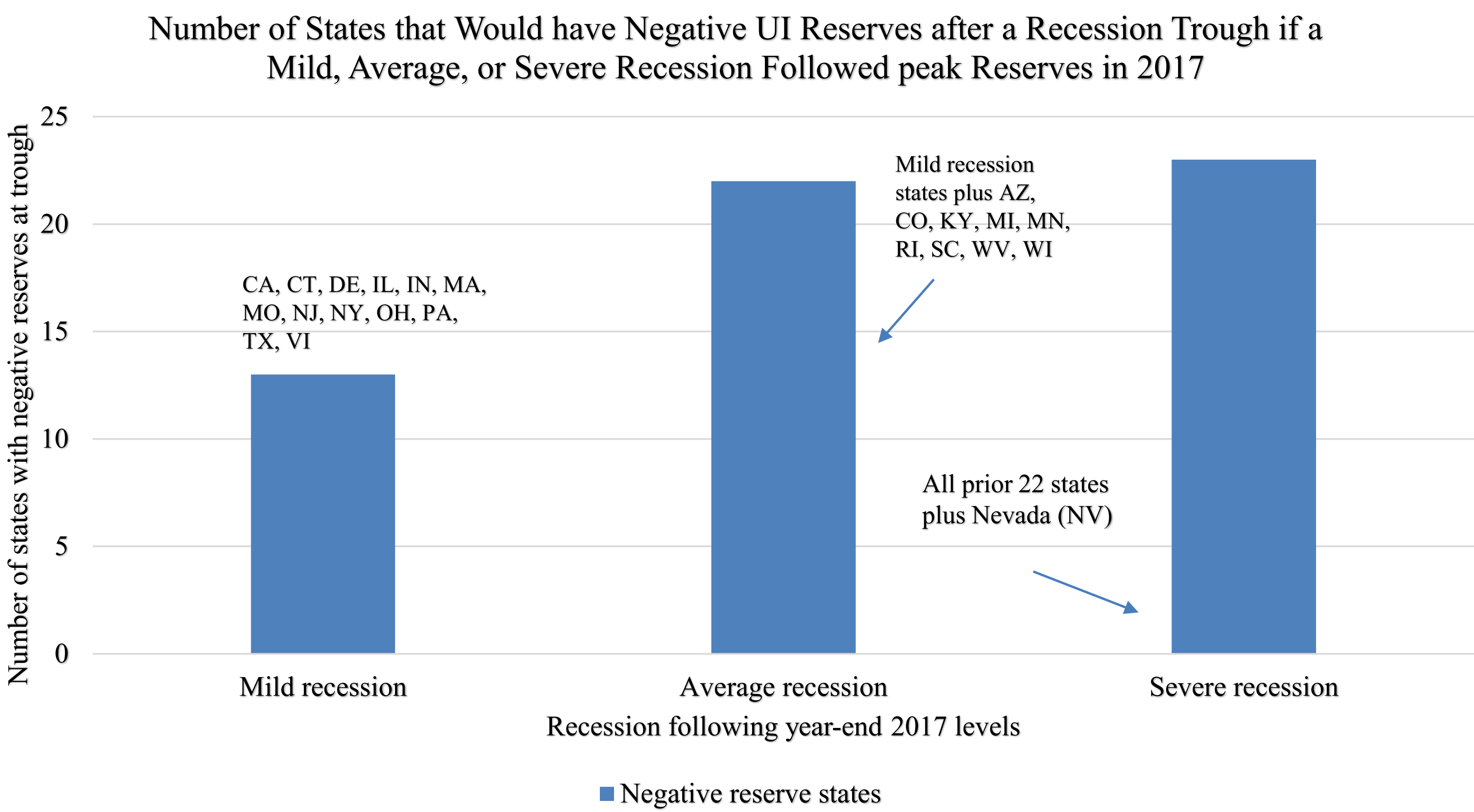
Average High Cost Multiple (years of recession level benefits in state reserves) target is 1.0

- Raise state Average High Cost Multiples
  - Reward: Pay higher rates if AHCM > 1.0
  - Penalty: FUTA credits if AHCM < 0.5

Summary of State Trust Fund Status
Average high cost multiple as of 1/1/2018



Likely Borrowers in a Recession

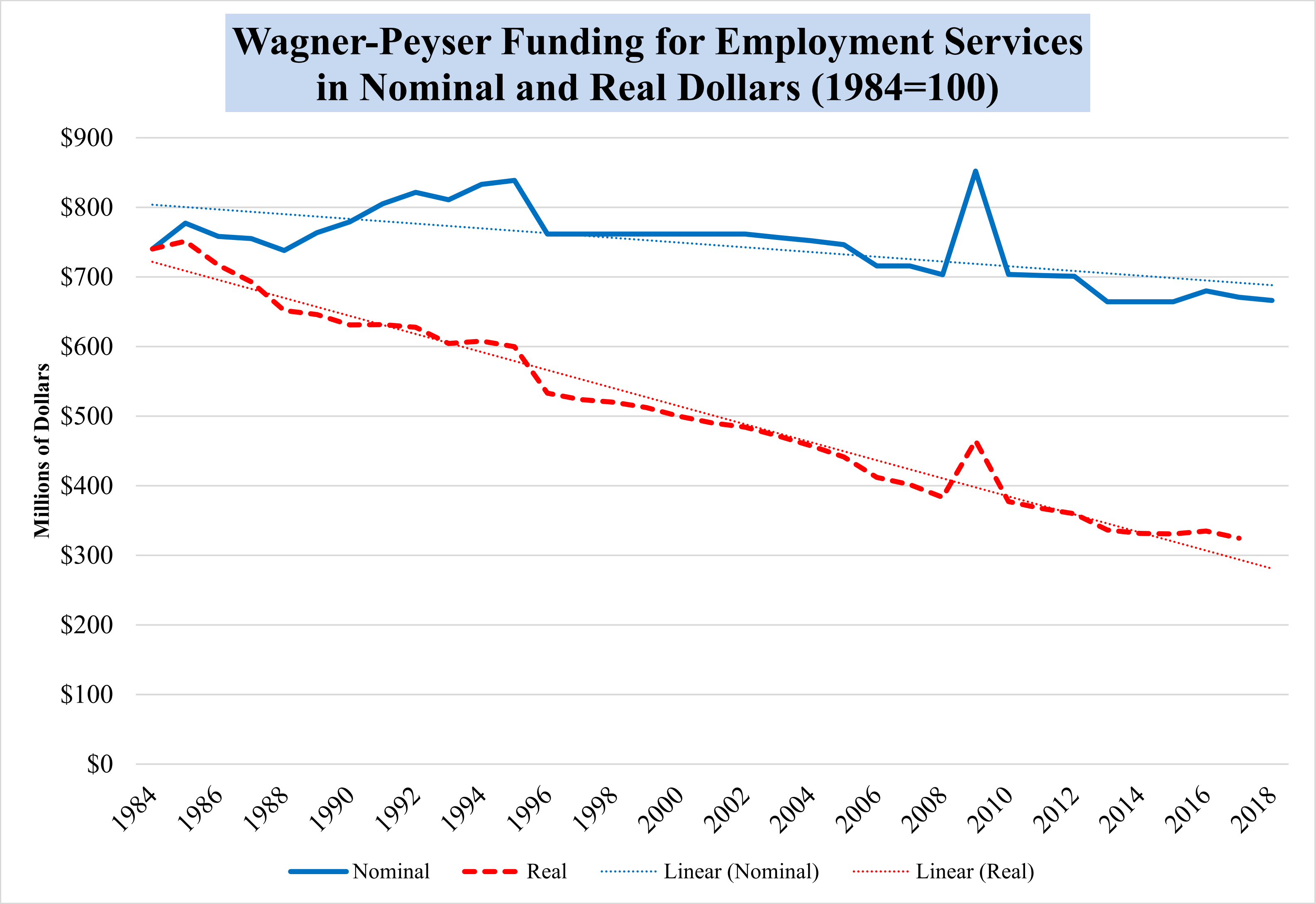


Enhance Employer Attachment

- Experience rating of employer UI taxes is intended to discourage layoffs
- Research shows experience rating reduces layoffs if tax rates respond to layoffs
- Many states have few rates and often cluster employers at low minimum and maximums
- Require at least 10 rates and prohibit zero
- Work sharing is available in 29 states, but should be an employer option in all states

Renew the Employment Service

- The Employment Service (ES) administers the UI work test and provides reemployment services
- ES has statutory Wagner-Peyser Act funding but has had inadequate appropriations for decades
- Reemployment Services and Eligibility Assessments (RESEA) are not a substitute for ES
- RESEA has depended on inconsistent funding and inadequately maintained and poorly funded profiling models.


Wagner-Peyser Funding for Employment Services
in Nominal and Real Dollars (1984=100)
Millions of Dollars
$900
$800
$700
$600
$500
$400
$300
$200
$100
$0
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
2014
2016
2018
Nominal
Real
Linear (Nominal)
Linear (Real)

Reform Extended Benefits

- States should provide potential durations of at least 26 weeks regular UI regardless of the TUR level.
- The Extended Benefits (EB) program should have TUR triggers that extend durations in crises.
- EB should be 100 percent federally financed from ESAA, and if necessary, from general revenues.
- Congress may exercise discretion to provide emergency extended benefits on top of regular UI and the permanent EB program.

Summary of Reforms

- Improve benefit access
- Improve benefit amounts and duration
- Improve forward funding
- Institute TUR triggers for EB along with 100% federal financing
- Fund ES and RESEA for return to work
- Improve state WPRS profiling models
- Universal access to Work Sharing and SEA
- Allow states to offer reemployment bonuses

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